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21 May 1982

MEMORANDUM FOR: Holders of NIC Memorandum 82-10006 --
"The United States in the World Economy:
Elements of Strength"
SUBJECT : Erratum

Please make the following correction on page 19, Figure I-3:
Reverse the legend labels on the bottom chart (dark colors
represent productivity, light colors represent wages).

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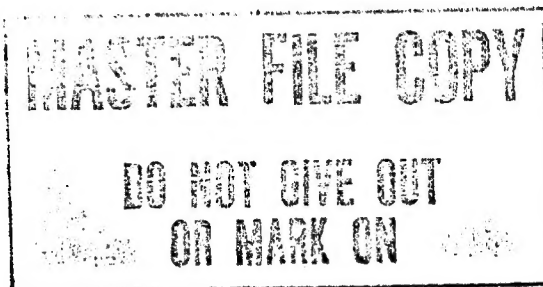


**National
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The United States in the World Economy: Elements of Strength

**National Intelligence Council
Memorandum**



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*NIC M 82-10006
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The United States in the World Economy: Elements of Strength

**National Intelligence Council
Memorandum**

*Information available as of 4 May 1982
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This Memorandum was prepared within the
National Intelligence Council. The material presented
in part B was reviewed by CIA's Directorate of
Intelligence. Comments are welcome and may be
addressed to the authors, Hans Heymann, Jr.,
National Intelligence Officer at Large [redacted]
and [redacted] Analytic Group [redacted]
[redacted]

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May 1982*

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**The United States in the
World Economy:
Elements of Strength**

Preface

This paper examines the performance of the United States in the world economy in the past decade and looks beyond the present recession toward the mid-1980s. Part A provides the broad perspective. Part B presents a collection of annotated graphic materials supporting the propositions of part A and providing a fuller record of the US 1970s performance. The overall picture that emerges is considerably more encouraging than the gloomy perceptions now gaining wide currency even among well-informed observers. In particular, the paper *challenges* the assertions often made that:

- The United States is steadily losing its competitive edge in worldwide and key export markets.
- The downward trend in US productivity growth is a firmly embedded phenomenon.
- Japan's recent dramatic high-technology accomplishments foreshadow the end of US technological preeminence.

Not surprisingly, these and other assertions attesting to the steady erosion of America's economic strength tend to gain maximum momentum when the economy is in the trough of a business cycle. Worrisome signals emitted by adverse economic indicators—rising unemployment, widening deficits, negative growth—tend to focus attention on present transitory troubles and mask the significance of more favorable longer term trends. In this atmosphere, observers and forecasters tend to put the most gloomy interpretation on what has transpired. "The US economy lost its élan during the 1970s," proclaims one prognosticator. "Productivity increases, economic growth and international competitiveness all dropped like stones." Productivity gains certainly did diminish and economic growth slackened off, but these developments hardly add up to a loss of élan. On the contrary, a more careful look at the historic record reveals a relatively robust US performance in the past decade and a more favorable prospect for the mid-1980s than is generally assumed.

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The United States in the World Economy: Elements of Strength

Part A: Overview

In taking a retrospective look at the troubled decade of the 1970s we would be badly misled if we failed to take into account the exceptional nature of the halcyon decades of the 1950s and '60s that preceded it. Those were decades of extraordinary postwar growth during which the badly mauled economies of Western Europe and Japan were restored to their proper place in the world economy, closing the economic gap with the United States. The high-growth momentum of those decades could not have been sustained much longer in any event. A slowing was already apparent in the United States after 1966. But the two OPEC shockwaves of the 1970s put an extraheavy damper on the performance of all the big capitalist economies. Real growth fell and inflation and unemployment rose in all of them.

Seen against this backdrop, the US economic performance—relative to that of other industrial countries—remained surprisingly strong throughout the 1970s.

The 1970s Record

Some highlights of the US performance may help put the US economic posture in better perspective.

Relative Growth

- US growth in real output during the 1970s exceeded or at least matched that of all other industrial countries except Japan. Although the growth rate of all of the OECD countries slumped during the decade, that of the United States declined less steeply, thus enabling it to hold onto its 40-percent share of the industrial countries' collective GNP.
- The sharp appreciation of foreign currencies against the dollar in the 1970s created the exchange-rate illusion that other industrial countries were still gaining on the United States. In fact, the exchange rates were merely catching up with the real changes that had occurred earlier. In real terms, the United States maintained its relative economic power position through the 1970s.

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Employment and Productivity

- The United States achieved its economic gains by putting people to work rather than increasing their productivity. Unlike Western Europe and Japan, where employment grew very little, the United States had to cope with a massive influx of new entrants into the labor force as the children of the 1950s "baby boom" shot into the labor market. It also moved from a position of having one of the lowest proportions of females employed in the late 1960s to having the highest proportion by the late 1970s. Finally, the United States absorbed the largest rise in immigrant workers. Almost 19 million new jobs were created—a net increase in the employed labor force of 23 percent. US firms, therefore, not facing the tighter labor situation and not benefiting from the greater capital availability in other industrial countries, often found it more profitable to hire more workers than to invest in labor-saving equipment.
- In sharp contrast, West European firms, in the face of a much tighter labor market and higher wage costs, placed greater emphasis on labor-saving capital investments. The results in terms of improved productivity were much better. Public pressure for higher wages and social welfare benefits, however, pushed up real wages beyond the productivity gains, undercutting Western Europe's international competitiveness. Europe also has been slower than either the United States or Japan to move out of mechanically based into electronically based technologies.
- Japan, through a high rate of investment and a remarkably adept technology development strategy, was able to achieve productivity growth rapid enough to accommodate a large boost in real wages without impairing its international competitiveness. The move toward greater labor-saving investments also reflected a significant decline in new entrants into Japan's labor force. This labor trend was the opposite of those that took place in the United States and Western Europe.

Export Performance

- Value versus Volume: In value terms (undeflated US dollars) total world exports doubled in the 1950s and doubled again in the 1960s, but increased *sixfold* in the 1970s. The US share of world exports, measured in this way, declined modestly in the 1950s and '60s, and fell sharply in the '70s. But again, exchange rate and price movements (dramatic changes in the value of the dollar, the huge jump in oil prices) convey a blurred image. In physical volume, the US share of world exports increased slightly in the 1970s—not enough to cover higher oil prices, but enough to maintain the US share of the industrial world's exports in terms of realistic exchange rates.

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- Looking at *manufactures* alone, we see that the volume of US exports climbed almost as rapidly as that of Japan and faster than that of the United States' European competitors for the decade as a whole. The US share of OECD exports of manufactures thus was actually higher in 1980 than at the beginning of the 1970s.
- The US share of exports of manufactures, measured in volume terms, was higher in 1980 than at the beginning of the 1970s in *all* markets—Japan, Western Europe, the less developed countries (LDCs), and the Communist countries. In the OPEC countries, the shares of the United States, West Germany, France, and the United Kingdom all fell slightly, while Japan's and Italy's gained. The United States did particularly well in the rapidly growing markets of the newly industrializing countries (NICs)—Mexico, Brazil, South Korea, Taiwan, Hong Kong, and Singapore.
- The influence of shifts in exchange rates, however, made the US export performance in manufactures highly erratic during the decade, with exports growing rapidly during periods of a depreciating dollar (1971-74 and 1977-80) and exports actually declining in a period of dollar appreciation (1974-77). The upswing in the value of the dollar beginning in late 1980 is now again having an adverse effect on US exports. The continuing strength of the dollar in 1982 augurs badly for US export competitiveness for the next year or so, until the cycle reverses again.
- The *structure of US trade* differs significantly from that of US partners in the OECD. Manufactures are far less important to the United States than they are to Europe and Japan in balancing the trade account. The United States has had an increasingly favorable position in foodstuffs since 1973 and has run a near balance in raw materials, while most other developed countries have large deficits in these two categories. The US deficit in fuels is moderated by the country's large domestic energy resources and by some \$5 billion in coal exports.
- *Service transactions*, moreover, represent a far more significant factor in balancing the US current account than is the case for any other country. In recent years, large US trade deficits have been more than offset by even larger surpluses on service account. The spectacular increase in income from overseas investments (double the corresponding payments to foreigners investing in the United States) and the crucial role that services now play in balancing the US current account constitute a widely underappreciated area of US competitive strength.

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In sum, the United States' overall trade performance in the 1970s was highly creditable:

- Its current account position was strongly positive. Over the past 12 years, the United States earned far more than it paid out in its current international transactions (goods, services, return on capital invested abroad, and private remittances). In fact, its cumulative surpluses for the entire period topped \$60 billion, more than those of any other industrial country.
- Japan, alone among the industrial countries, performed better than the United States. But its penetration of world export markets is highly concentrated in a very few commodity categories. Only five categories—road motor vehicles, steel, consumer electronics, industrial machinery, and ships—make up more than half of its exports. It is precisely this concentration that contributes to—and also limits—the scope of Japan's success.

Challenges of the 1980s

The Crucial US Role

The vigor and durability of the coming global upturn will hinge to a large extent on what happens in the United States—partly because of its enormous weight in the global economy, but also because it is the only industrial country with a major stimulative program in place. Neither the West Europeans nor the Japanese are willing or able to provide the engine of growth they did during earlier upswings, and the LDCs and the Communist countries no longer offer the growth markets they did in the 1970s.

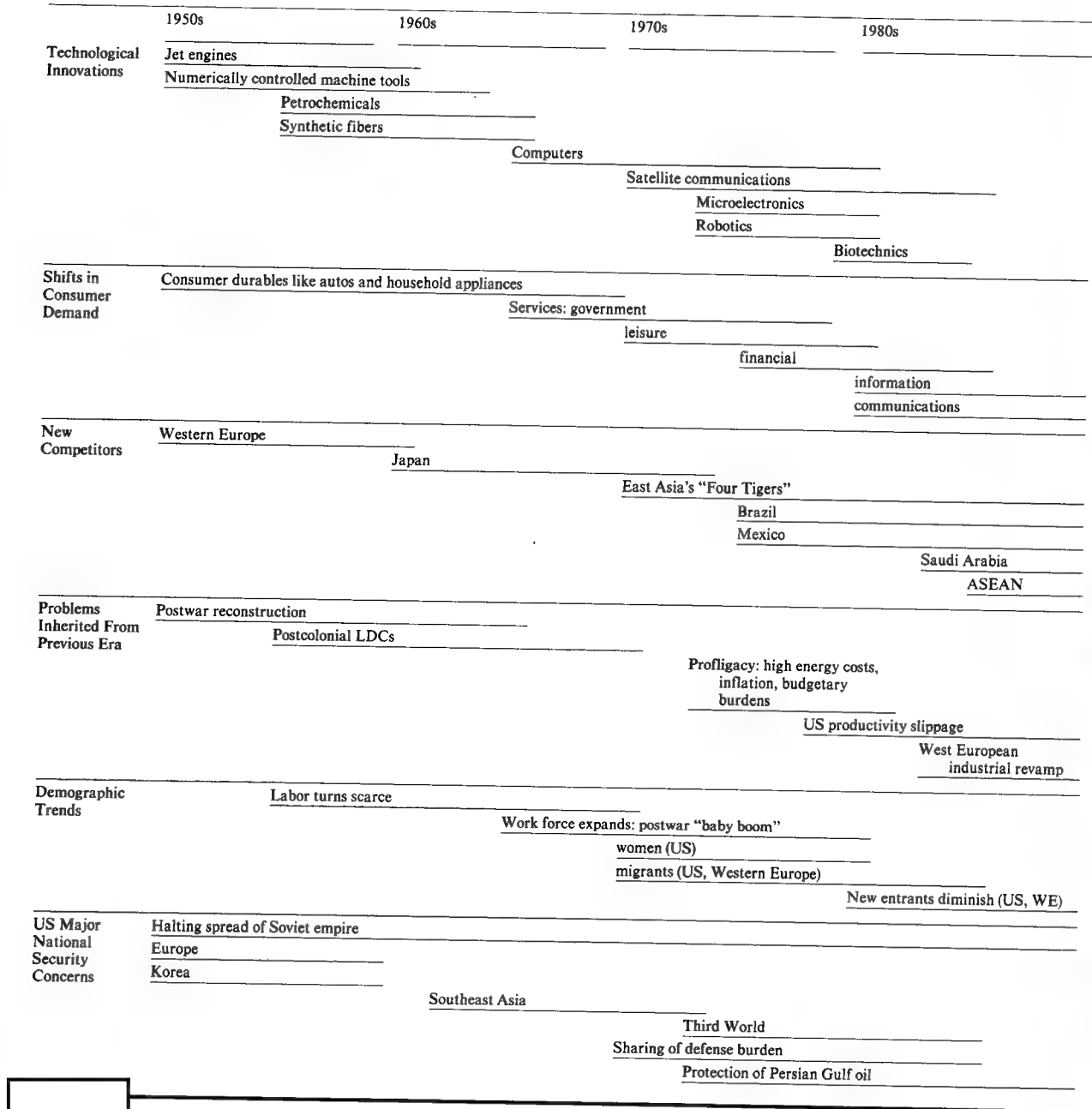
From a psychological point of view, then, the industrial world and many LDCs are increasingly looking to the United States for global economic leadership. They appreciate that a strong US recovery is a prerequisite to their own recovery. Especially if accompanied by lower inflation and interest rates, a US resurgence will benefit them both directly and indirectly through its stimulation of commodity markets and growth in LDC import demand. Their expectations, however, will be greatly frustrated if—as is quite likely—their recovery is less vigorous and lags significantly behind that of the United States. Nevertheless, given their current mood, the Europeans are much less inclined to be leaders than they were just a few years ago. The ingrained attitudes of the Japanese continue to prevent them from playing a role in global economic affairs that even begins to match their economic prowess.

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Figure A

Industrial Countries: Factors Posing Economic Adjustment Problems



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All this raises the question of whether the United States is equipped to meet the challenge. There is no doubt that the US economy, like those of all industrial countries, is confronted with powerful forces of structural change as pervasive as those it faced in the past decade, although quite different. Rapid advances in technology, sweeping shifts in consumer demand, major alterations in patterns of energy use, and significant reversals in demographic trends are all part of the dynamic process to which industrial societies must continually adjust. A display of the changing nature of these issues since World War II and a glimpse at the future is shown in figure A. In this adjustment process, those who stand to benefit from change are forever at odds with those who stand to lose. The former seek to alter the rules and structures, while the latter want to preserve the status quo. The problem for government is how to make the needed structural adjustments politically palatable while minimizing their socially disruptive consequences.

Many Roads to Adjustment

The way a society adjusts to secular change is much less a matter of its conscious choice than a function of its cultural-institutional makeup. There is no right way or wrong way, no single magic formula of social organization for coping successfully with change. For the most part, we are talking not about an "industrial strategy" but about a set of entrenched conditions. It may be tempting to single out some particular set of policies or approaches on some facet of a country's institutions and to present these as success indicators or exemplars for other countries to emulate. But such single elements do not typically stand on their own when removed from their indigenous social context; nor do these elements lend themselves readily to modification through social engineering. This does not mean that government policies and actions cannot significantly stimulate or retard the adjustment process. Indeed, such policies have both intended and unintended effects. What it does mean is that their effects are conditioned by the particular social setting in which they operate.

Among the elements often cited as "explaining" a country's industrial dynamism and successful adjustment to change are such things as the way government interacts with the private sector, the manner in which industry is structured, the emphasis put on welfarism, and the amplitude of the consumer savings rate. But the evidence on the separate or collective impact of these and other elements is by no means clear. All that can be said is that industrial societies differ in their institutions, approaches, and policies in these matters. When they do try to replicate each other's solutions, they often find that what is good for one is not necessarily

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appropriate for the other. While the long-term trend toward internationalization of production may well narrow the differences among countries, the differences are likely to remain substantial for some time.

The differences range over a wide spectrum. Some examples:

- **Role of Government.** Involvement of government with the private sector is pervasive in Japan and significant in Western Europe, but quite limited in the United States. Similarly, cooperative interaction among big government, big business, and big labor is extensive in Japan and well developed in most West European states, while in the United States the relationship among the three groups has been traditionally adversarial. Hostility, however, is beginning to break down, with the growing awareness in the United States that a community of interest exists among them.
- **Industrial Organization.** US industrial advances and technological gains depend far more on innovations by small and medium-size firms than in Japan, where huge, well-established conglomerates seek to play the same role.
- **Emphasis on Welfarism.** Both Europe and Japan are more inclined than the United States toward preserving internal social stability—for example, by providing income maintenance—and toward cushioning their industries against disruptive change—by cartelizing or nationalizing enterprises in distress, for instance. European countries work mainly through regulation, such as laws that restrain layoffs, while Japan adheres to less formal practices, such as the institution of “lifetime employment.” Japan’s pursuit of social stability policies has also been an important factor in insulating the Japanese domestic market from foreign competition.
- **Methods of Investment Financing.** US firms are heavily dependent for investment capital on corporate profits and equity financing, while other industrial countries—most notably Japan—rely more on a high rate of debt financing as a source of investment funds. Whether the notoriously low US rate of private saving has become a serious impediment to future US growth, as is now widely claimed, is not clear. Historically, the US savings rate has always been very low, and has not declined in recent years.

These divergent institutional approaches and practices do not add up to any coherent explanation of why industrial countries differ in the degree and quality of their economic dynamism and adaptability. It seems, rather, that

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the variations among them are attributable to some quite fundamental factors. For the United States, its very high degree of flexibility rests on a uniquely broad-based economy, a great diversity of political institutions, and a relatively unimpeded flow of labor, capital, and know-how. Japan's adaptability springs largely from its social homogeneity, which permits a strong consensus among interest groups. European countries vary considerably from one to the other, but collectively their societies exhibit less resilience and greater resistance to change, largely as a matter of social culture and tradition, including lingering class hostilities and broad adherence to socialist principles.

The fact that the US economy exhibited great adaptability in coping with change during the difficult decade of the 1970s should give some comfort that it will adjust equally well to the stresses of the 1980s. This is not to underrate the seriousness of some of these stresses—boosting US productivity growth and improving the direction and efficiency of investment are no small matters—but it is merely to point out that an adjustment mechanism of proven effectiveness does exist. This much-touted adjustment process, however—like the “unseen hand” of the market place—is invisible and unpredictable. Confidence in its efficacy, thus, is essentially an act of faith. For economists and public policy activists, however, faith is a rather shaky foundation. Fortunately, there are other, more tangible factors at work that bolster the proposition that the US economy should be doing quite well by the mid-1980s.

US Economic Resurgence

The high degree of flexibility and resilience that characterizes the US economy will be bolstered by a number of developments that should help to enhance the level of economic activity. Among these are:

- In the important *energy area*, the United States has an enviably rich resource endowment. Although their exploitation was a divisive issue in the 1970s, the US ability to tap these resources with unprecedented intensity is a great asset. Already, as a result of technological breakthroughs in exploration and extraction and record drilling rates, the decade-long decline of the nation's oil reserves has been arrested and, since 1980, reversed. Also, given its relatively high per capita energy use, the United States has great potential for further conservation gains. If soft oil markets and sagging prices persist, these favorable developments will

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be slowed, but real energy costs are likely to remain high enough to maintain the momentum of development of abundant US coal resources and of conservation.

- *Capital spending*, long repressed by uncertainties about future market demand, should surge once the economy turns up and interest rates decline. The tax incentives already in place could even lead to a capital spending boom.
- The present attractiveness of the US economy to *foreign investors* is likely to outlast a decline in interest rates. European apprehensions about political instability, stimulated especially by events in Poland and concern over domestic economic weaknesses, are likely to sustain the present large flow of equity capital to the United States. The Japanese, for their part, are already beginning to invest increasingly in the establishment of plants in the United States to assure market access in the event of US trade actions. The continued flow of foreign investment capital into the United States will benefit the US economy not only through job creation but also through increased competition and enhanced absorption of innovations in technology and management.
- *Demographic trends* will induce the US economy to place greater emphasis on labor saving rather than the job creation it pursued in the 1970s. A shrinkage of new entrants into the labor force is already under way and will persist through the decade. Because this decline comes earlier and is more pronounced in the United States than in Europe, the United States will be in a better position to reduce unemployment and increase productivity. Gains in productivity will also result from this demographic trend because the average worker will be more experienced.
- *The service sector*, which now accounts for more than 70 percent of the US labor force and for almost 90 percent of its growth, is a highly dynamic factor both in the US and in the world economy. Indeed, a service transformation is taking place in the US economy, in which a new set of linkages is being established through the growth of "integrative services" that interconnect firms, units of firms, and industries at different stages of production or in different locations. The distinction between goods and service industries is increasingly breaking down, as the two aspects merge with each other. The most dramatic expansion is now taking place in this integrative part of the service sector, which combines high technology with management/marketing know-how. In

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this "information economy," which marries computers and communications and which includes "software" of all types and a great variety of financial and diagnostic services, the United States is uniquely strong. It should be able to take excellent advantage in the 1980s of the lead it already enjoys in this rapidly expanding global market.

- The US performance on the *frontiers of technology* should continue to be highly creditable, even though its earlier across-the-board preeminence has been at least selectively whittled away as Western Europe and Japan have narrowed the technology gap. But the challenge mounted by America's major industrial competitors is not overwhelming. The remarkable Japanese technology drive in some well-selected areas has forced US high-technology industry—which had long felt secure in its dominance—to take foreign competition seriously. Major US firms are now developing strategies to capture leading positions in new areas and to regain market shares where they have slipped. The Japanese, for their part, will find it increasingly difficult to move from imitating, improving on, and applying the inventions of others to creating epoch-making developments of their own that make possible whole new industries. They will undoubtedly continue to add to the number of product lines in which they excel, but they will find it hard to move from concentration on a relatively few areas to expansion across the much broader spectrum of technological activity that characterizes the US economy. Finally, a major stumblingblock for Japan will be the tough problem of moving from innovation in discrete areas of production to the integration of hardware and software into a customer-tailored service package. The 64k RAM chip success story, for example, may have been dramatic as a single accomplishment, but it represents only a speck on the large canvas of the computer-based knowledge industry.

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The United States in the World Economy: Elements of Strength

Part B: The 1970s Record

Key Findings

The dramatic changes in the global economy since the early 1970s and the market reactions to them have significant implications for US interests in the 1980s. Some key changes are:

- The US economic position within the industrial world stabilized during the 1970s after declining for two decades. (Section I, page 13)
- During the 1970s the United States did quite well in competing for international markets. It ran a larger cumulative current account surplus than any other developed country; it did exceedingly well in selling services and agricultural products; it even improved somewhat its share of industrial country exports of manufactures. (Section II, page 23)
- The introduction of flexible exchange rates in the early 1970s has created a highly cyclical pattern in the international competitiveness of US manufactures that reverses about every three years. The period of "noncompetitiveness" now beginning is more a reflection of this cyclical pattern than of fundamental factors. (Section III, page 61)
- The role of less developed countries (LDCs) in the foreign trade of the United States and other industrial countries increased substantially in the 1970s. For the United States this shift resulted from increased trade with members of OPEC and with the newly industrializing countries (NICs); for the other industrial countries the shift was dominated more by OPEC trade. (Section IV, page 69)
- During the 1970s the LDC (mainly NIC) share of the US import market for manufactures jumped dramatically in a dozen or so product lines. (Section V, page 77)
- Intense trade frictions between Japan and its trade partners persisted throughout the 1970s, mainly because of the manner by which that country achieved its exceptionally large trade surpluses in manufactures. Its export surges were heavily concentrated in a few product lines, and its imports of manufactures remained at a low level. Throughout the decade the United States bought relatively more NIC and Japanese products

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than other industrial countries, thereby absorbing more of the brunt of the export onslaughts and more of the benefits of increased competition, especially for the consumer. (Section VI, page 87)

- Service sector transactions have become the most dynamic and important element of the US economy and its international economic relations; they are also the least understood. (Section VII, page 99)
- For the United States, foreign direct investment became a two-way flow in the 1970s, after two decades during which US firms were investing heavily abroad and the flow into the United States was minimal. (Section VIII, page 115)
- The United States, more than 35 years after World War II, still carries by far the major economic burden of industrial country military defense and assistance to LDCs. (Section IX, page 125)

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**I. Overall Economic
Position**

The US economic position within the industrial world stabilized during the 1970s after declining for two decades.

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World GNP

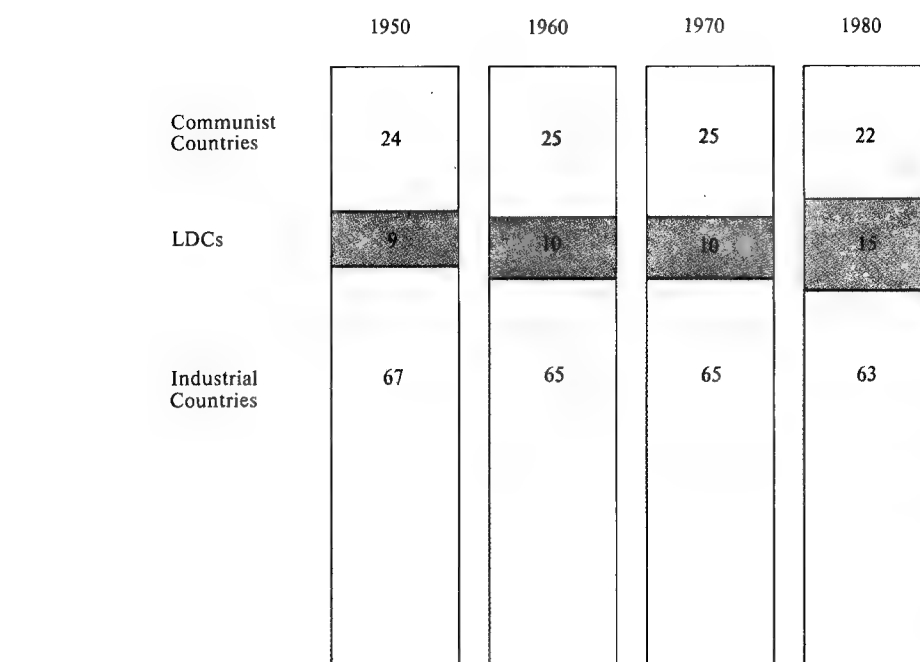
- In placing the US position in the world economy in perspective, we first look at the changing alignment among three often-used categories:
 - The First World: market-dominated industrial countries.
 - The Second World: centrally planned Communist countries.
 - The Third World: less developed countries.
- From 1950 to the early 1970s, each group's share changed little.
- In the 1970s, the LDC share jumped dramatically, reflecting mainly the huge increase in oil earnings by OPEC members and other major oil-exporting countries.
- The LDC rise also resulted from the emergence of the newly industrializing countries (NICs)—South Korea, Taiwan, Hong Kong, Singapore, Brazil, and Mexico.
- The Communist countries had the largest loss during the 1970s, mainly because of the comparatively sharp economic slowdown in the USSR and Eastern Europe toward the end of the decade.
- Although the industrial countries' share slipped somewhat, their overwhelming importance in generating global economic activity remains intact.

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**Figure I-1
World GNP**

Percent of Total



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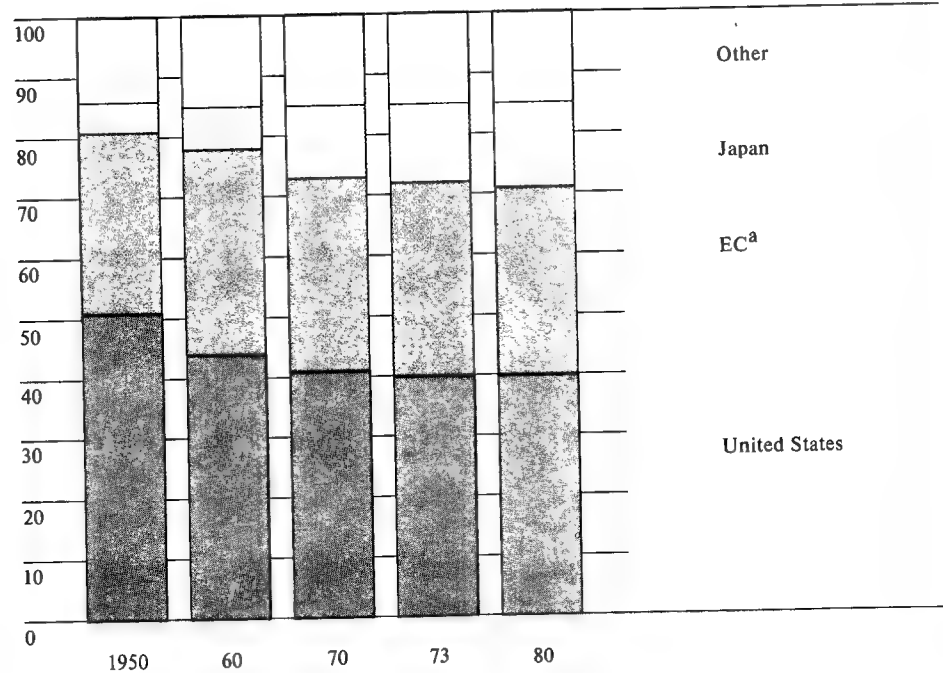
**Industrial Countries:
Economic Power Shifts**

- The US share of the economic output of industrial countries fell sharply from 1950 through the early 1970s, and thereafter stabilized.
- The largest US loss occurred in the 1950s, reflecting mainly the recovery of war-torn Europe and Japan. The momentum of this catch-up lasted well into the 1960s although the changes in relative GNP shares slowed considerably.
- During the 1970s the US share changed little.
- The gains of the EC Nine came entirely in the 1950s; after that the group's proportion declined slightly as the share of the United Kingdom and West Germany fell somewhat.
- Japan's largest gains came during the 1960s when its economic growth pace topped an extraordinary 10 percent a year. Japan's share increased slightly in the 1970s as its economy continued to grow somewhat faster than that of other industrial countries.

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Figure I-2
Industrial Countries: Economic Power Shifts

Share of Total Industrial Country GNP, in 1975 Prices



^aPrincipally the United Kingdom, West Germany, and France.

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**Major Industrial Countries:
Employment,
Productivity, and
Wages**

Although the differences among industrial countries in economic growth rates narrowed during the 1970s, the manner by which each achieved its economic gains varied considerably. Much depended on each country's particular circumstances and its political-economic institutions:

- *In the United States* many of the economic gains were attributable to putting people to work rather than increasing productivity. The United States was coping with a substantial rise in jobseekers (those born at the tail end of the postwar "baby boom"), a large jump in female workers, and a major influx of immigrants, especially from Hispanic countries. Because labor was relatively cheap, many US firms found it more profitable to increase output by hiring more workers than by investing in new plant and equipment.
- *In Western Europe* the emphasis clearly was on increased productivity. The region faced a much slower rise in the size of the working-age population, and had much less of an increase in female participation in the labor force than the United States. In addition, the number of "guest" workers declined after 1973. Even so, not enough new jobs were credited to keep unemployment from climbing sharply. By 1980 most European countries had jobless rates that matched those of the United States, while in the early 1970s European unemployment had hovered at a low level. West European firms focused so heavily on labor-saving capital investments because of considerable union and public agitation for much higher wages and greater social-welfare benefits. In fact, real wages were pushed up, well beyond the gains in productivity. Until recently, this factor helped boost economic growth, but it is now undercutting the region's ability to grow and its international competitiveness. The Europeans also have been slower than either the United States or Japan to move from mechanically to electronically based technologies.
- *In Japan* rapid technological improvements, coupled with forward-looking management, brought a rapid rise in productivity. This permitted large increases in real wages over the years. The demographic pressure for creation of new jobs in Japan was much less than in the United States, and the Japanese even reduced the female participation rate in the 1970s. In addition, the Japanese labor force contains few foreign workers. For much of the decade, the Japanese even feared labor stringencies, a factor that gave emphasis to increased investments in labor-saving equipment.

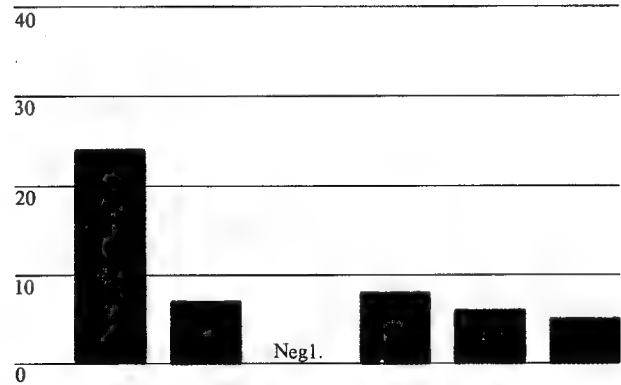
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Figure I-3
Major Industrial Countries: Employment, Productivity, and
Wages, 1971-80

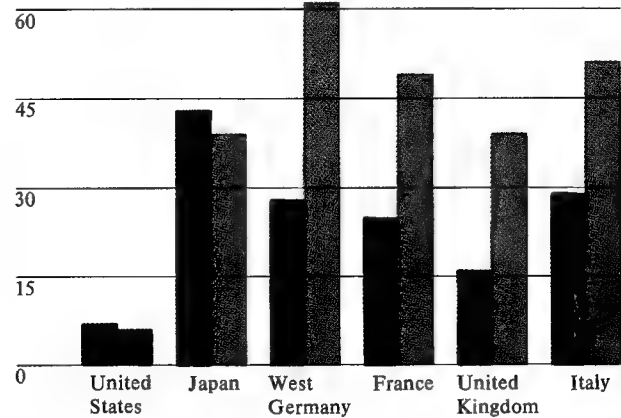
Percent of Increase

Employment



Real Wages and
Productivity (Real
GNP per Employee)

■ Productivity
■ Wages



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**Purchasing Power
per Capita**

- The changing economic structure among industrial countries can be seen clearly in studies by Irving B. Kravis, who has developed the most commonly used method for comparing changes in per capita purchasing power.
- All industrial countries shown in the figure (except the United Kingdom) closed the purchasing-power gap with the United States dramatically during the 1950s and 1960s, and since then the changes have been relatively small.
- West German and French purchasing power reached 80 to 85 percent of the US level in 1979. Many of the West German gains occurred in the 1950s, whereas the French improvements were achieved mainly in the 1960s.
- Japan, Belgium, and the Netherlands have climbed to about 70 percent of the US level. The Japanese showed spectacular gains vis-a-vis the United States during the 1950s and 1960s, and their per capita purchasing power surpassed that in many European countries. The Low Countries made their greatest progress in closing the gap with the United States in the 1960s.
- The United Kingdom and Italy are now near about 60 percent of the US level in terms of the purchasing power of the average citizen. The UK level in 1979 was the same as in 1950, with the small gains made in the 1960s lost in the 1970s. Italy's comparative level has stagnated since 1970 after that country made great strides in the 1950s and 1960s. The slack in Italian performance may be overstated because the country most likely has a larger (and perhaps more robust) unrecorded "underground" economy than do other major industrial nations.

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Confidential**Figure I-4**

United States = 100

Purchasing Power per Capita

| | 1950 | 1960 | 1970 | 1973 | 1979 |
|----------------|------|------|------|------|------|
| West Germany | 45 | 73 | 82 | 81 | 85 |
| France | 51 | 62 | 76 | 78 | 80 |
| Japan | 18 | 32 | 62 | 67 | 70 |
| Belgium | 54 | 58 | 70 | 72 | 70 |
| Netherlands | 54 | 63 | 73 | 72 | 68 |
| United Kingdom | 62 | 66 | 65 | 65 | 61 |
| Italy | 33 | 48 | 59 | 58 | 57 |

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**II. Competitiveness in
World Trade**

During the 1970s the United States did quite well in competing for international markets. It ran a larger cumulative current account surplus than any other developed country; it did exceedingly well selling services and agricultural products; it even improved somewhat its share of industrial country exports of manufactures.

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**Industrial Countries:
Current Account
Trends**

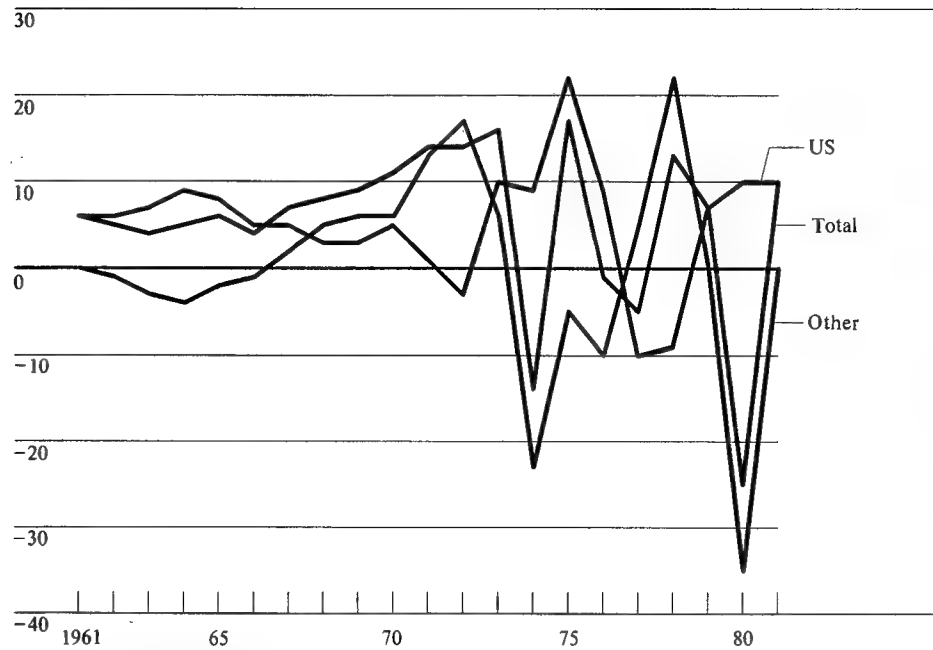
- The most comprehensive and telling measure of an industrial country's economic strength in international markets is its balance on current transactions—merchandise, services, return on capital invested abroad, and salaries earned abroad. As we point out in section VII dealing with services, these several current account categories have become highly intertwined and thus become increasingly complex and meaningless if looked at separately.
- The United States and other industrial countries, as a group, usually run current account surpluses. These surpluses create the capital flows the LDCs need to finance development efforts. By the early 1970s the industrial country surpluses reached some \$15 billion a year. This normal surplus situation was distorted after 1973 because the huge oil price increases temporarily led to large current account deficits for the industrial world and made OPEC a major source of capital for LDCs.
- From the early 1950s through the middle 1960s, the United States ran fairly large surpluses while the other industrial countries had deficits; thus, the United States was providing capital to help the LDCs develop and to assist other countries of the industrial world in restoring their economies. As these other industrial countries improved their economic strength, they too began to run current account surpluses.
- By the late 1960s, the US current account position began to deteriorate sharply, reflecting the continuing competitive losses to other industrial countries. In this regard, it became clear that the dollar was overvalued.
- Since the realignment of the key world currencies against the dollar and introduction of floating exchange rates in the early 1970s, the US current account position and those of other countries have moved in cyclical rather than a secular fashion, reflecting ongoing exchange rate changes and the sudden rises in oil prices. The impact of exchange rates is discussed more fully in section III.

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Figure II-1
Industrial Countries: Current Account Trends^a

Billion US \$



^aIncludes goods, services, and private transfers.
Data for 1981 are estimated.

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**Industrial Countries:
Current Account
Positions**

- Since 1970 the United States has earned far more than it paid out in current international transactions, despite the jump in oil imports. In fact, since then the cumulative US current account surplus has topped \$60 billion, more than that of any other industrial country.
- These cumulative numbers hide considerable swings in current account balances. The United States, for example, ran large deficits in 1972 and again in 1977 and 1978, while achieving large surpluses from 1973 to 1976 and again in 1980 and 1981.
- Among the industrial countries, only the United Kingdom has encountered a pronounced fundamental change in its overall current account position. By the late 1970s the huge North Sea oil discovery allowed the United Kingdom to run large surpluses on a rather consistent basis.

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Figure II-2

Billion dollars

Industrial Countries: Current Account Positions ^a

| | United States | Japan | West Germany | France | United Kingdom | Italy | Canada |
|-------------------|---------------|-------|--------------|--------|----------------|-------|--------|
| 1970 | 5 | 2 | 2 | 0 | 2 | 1 | 1 |
| 1971 | 1 | 6 | 2 | 1 | 3 | 3 | 0 |
| 1972 | -3 | 7 | 2 | 1 | 1 | 4 | 0 |
| 1973 | 10 | 0 | 7 | 0 | -1 | -1 | 0 |
| 1974 | 9 | -4 | 13 | -5 | -7 | -7 | -2 |
| 1975 | 22 | 0 | 7 | 1 | -3 | 0 | -5 |
| 1976 | 9 | 4 | 7 | -5 | 0 | -3 | -4 |
| 1977 | -10 | 11 | 8 | -2 | 2 | 3 | -4 |
| 1978 | -9 | 18 | 13 | 5 | 5 | 8 | -4 |
| 1979 | 7 | -8 | -2 | 3 | 3 | 6 | -4 |
| 1980 | 10 | -9 | -8 | -6 | 11 | -9 | -2 |
| 1981 ^b | 13 | 6 | -1 | -6 | 17 | -7 | -6 |
| Total | 64 | 33 | 50 | -13 | 33 | -2 | -30 |

^a Includes goods, services, and private transfers.^b Preliminary.

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**Industrial Countries:
Current Account
Balances, 1980**

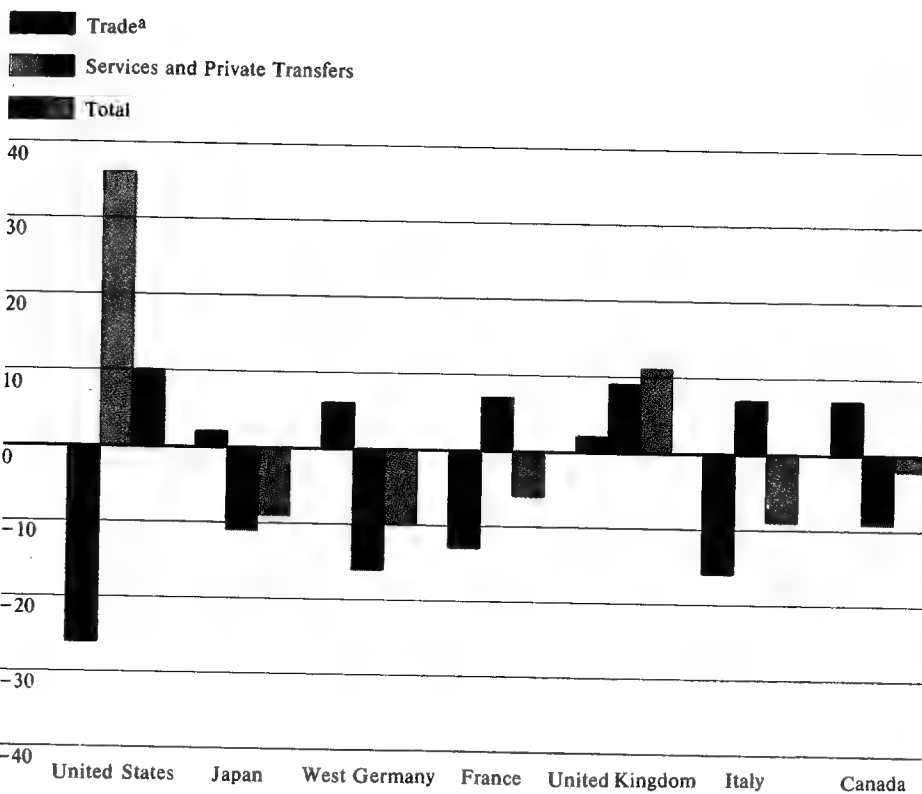
- The comparatively favorable US current account position relies heavily on service transactions.
- In recent years, the United States has had the largest trade deficit among industrial countries but has achieved by far the largest surplus on the service account.
- France, Italy, and the United Kingdom essentially follow the US pattern.
- Japan, West Germany, and Canada usually run trade surpluses and service deficits.

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Figure II-3
Current Account Balance of Industrial Countries, 1980:
Trade Versus Services

Billion \$



^aBased on balance-of-payments definition.

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**Industrial Countries:
Trade Balances, 1980**

- The current account positions of industrial countries vary widely in composition, reflecting the nature of each nation's physical resources and how it decided historically to concentrate its efforts.
- The efficient exploitation of an abundant material resource base, combined with a large surplus in service transactions, allows the United States to achieve a current account balance with a much smaller surplus in manufactures than do most other developed countries.
- The United States has a favorable position in foodstuffs and raw materials, while most developed countries have large deficits in these two categories.
- The US deficit in fuels in 1980 would have been worse if it were not for \$5 billion in coal sales.
- In comparison with the United States, Japan and West Germany are heavily dependent on manufacturing trade to balance current account flows.
- Italy finds itself in a position somewhat similar to those of Japan and West Germany, but it also has a service surplus.
- France is more like the United States, depending more on agriculture and services.
- The United Kingdom's position is also similar to that of the United States, except for fuels.

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Figure II-4

Billion Dollars

Industrial Countries: Trade Balances, 1980 ^a

| | United States | Japan | European Community | West Germany | France | United Kingdom | Italy |
|---------------|---------------|-------|--------------------|--------------|--------|----------------|-------|
| Foodstuffs | 19 | -15 | -18 | -13 | 4 | -8 | -7 |
| Raw materials | 3 | -24 | -37 | -11 | -5 | -6 | -11 |
| Fuels | -74 | -69 | -105 | -35 | -31 | -1 | -23 |
| Manufactures | 20 | 99 | 99 | 64 | 9 | 11 | 21 |
| Other | -1 | NEGL | 2 | -2 | -1 | 1 | NEGL |
| Total | -33 | -10 | -58 | 6 | -23 | -4 | -20 |

^a Imports c.i.f.

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**US Trade Balances in
Major Commodities**

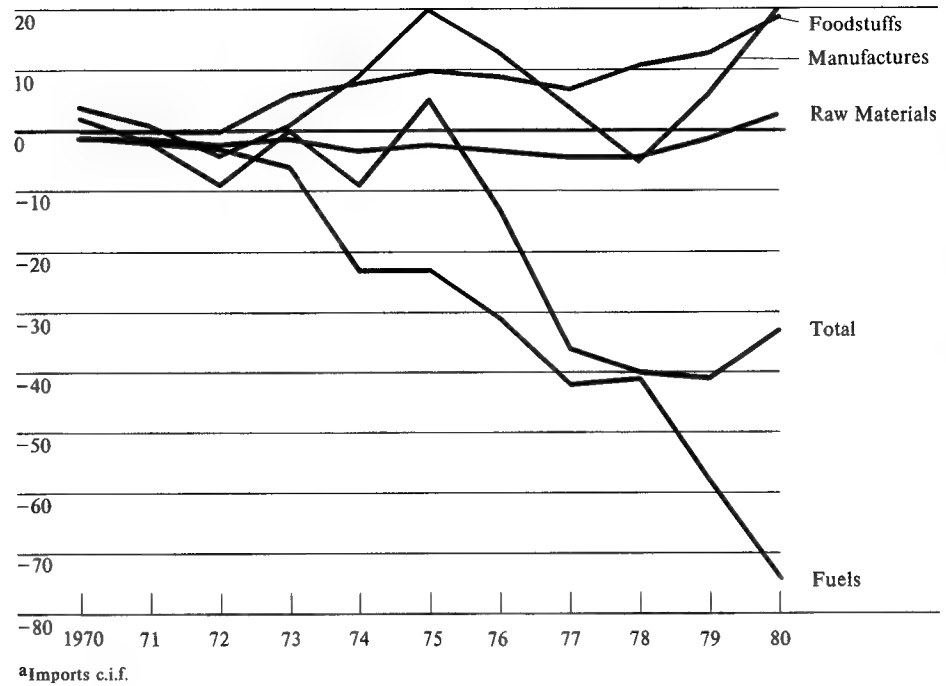
- The large US surpluses in foodstuffs began in 1973.
- The United States usually has run a small deficit in raw materials, although it achieved a small surplus in 1980.
- The US deficits in fuels followed a pattern similar to that in other industrial countries, with large increases following the two jumps in OPEC oil prices.
- The US balance in manufactures has been highly erratic, following a pattern (as demonstrated in section III) driven largely by the changing international value of the dollar.

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Figure II-5
US Trade Balances in Major Commodities^a

Billion US \$



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World Exports

- When looked at in value terms, the US share of world exports declined slightly in the 1950s and 1960s. The rising EC and Japanese share just about offset a decline in the LDC proportion caused by the sharp fall in raw-material prices from the exceptionally high levels of the Korean war years.
- In the 1970s the US share dropped markedly because of dramatic changes in the international value of the dollar and the huge jump in oil prices.

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Confidential**Figure II-6****World Exports**

| | 1950 | 1960 | 1970 | 1980 |
|--------------------------------------|-----------|------------|------------|--------------|
| Percent of total | | | | |
| United States | 16 | 15 | 14 | 11 |
| European Community | 25 | 32 | 35 | 34 |
| of which | | | | |
| West Germany | 3 | 9 | 11 | 10 |
| United Kingdom | 10 | 8 | 6 | 6 |
| Japan | 1 | 3 | 6 | 7 |
| Other developed countries | 16 | 14 | 14 | 12 |
| Less developed countries | 33 | 23 | 19 | 27 |
| of which | | | | |
| OPEC | 6 | 5 | 5 | 15 |
| Non-OPEC | 27 | 18 | 14 | 12 |
| Communist | 9 | 18 | 12 | 9 |
| Total value (billion dollars) | 62 | 130 | 310 | 1,970 |

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**Volume of Industrial
Country and LDC
Exports**

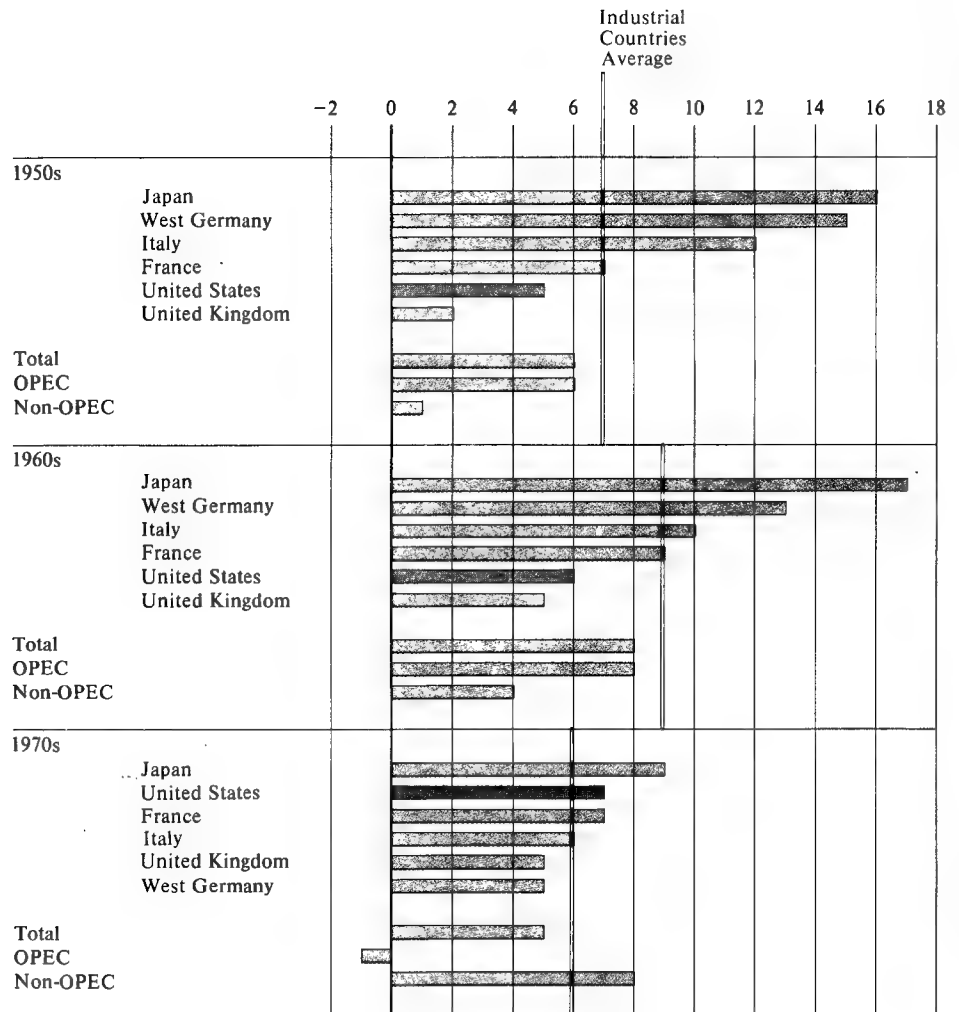
- A different picture of the changing trade patterns emerges when exchange rates and price movements are excluded. In terms of the volume of trade, US market losses were mainly in the 1950s and 1960s. During these years, Western Europe and Japan rebuilt their economies and greatly narrowed the technological gap with the United States. In contrast, during the 1970s the US share of world exports actually increased slightly.
- EC exports, measured in volume terms, grew much faster than those of the United States in the 1950s, somewhat faster in the 1960s, and slower in the 1970s.
- Japanese exports rose at three times the US pace through the 1950s and 1960s, and has since grown slightly faster.
- The volume of sales by non-OPEC LDCs increased little during the 1950s because their exports of raw materials were artificially high in the early part of the decade as a result of the Korean war boom. Their exports remained slow in the 1960s, but by the 1970s picked up significantly because of the surge in the exports of manufactures.
- OPEC sales increased at near the pace of the global volume of exports from the 1950s to the early 1970s and have fallen since then because the large jumps in oil prices hurt sales. In addition, the petrodollar windfall greatly reduced the incentives of oil-exporting countries to sell commodities other than oil.

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Figure II-7
Volume of Industrial Country and LDC Exports

Average Percentage of Annual Growth



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**Volume of Exports
of Manufactures**

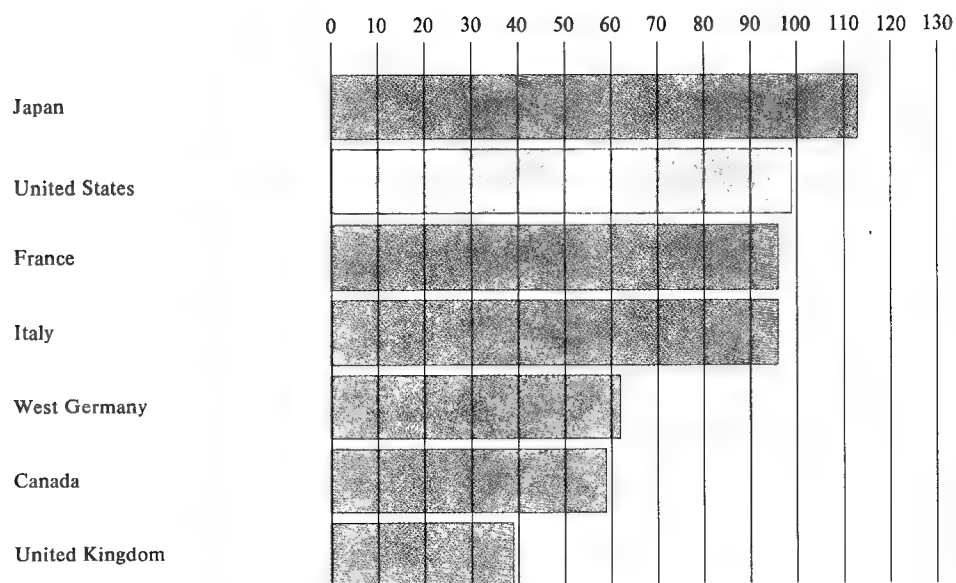
- Like that of total exports, the volume of US exports of manufactures in the 1970s climbed almost as rapidly as Japan's and faster than those of European competitors.

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Figure II-8
Industrial Countries: Volume of Exports of Manufactures, 1971-80

Percent of Increase



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**Industrial Countries:
Share of World
Market for
Manufactures**

- The US share of OECD exports of manufactures, measured in volume terms, was higher in 1980 than at the beginning of the 1970s.
- Like the United States, the Japanese pushed up their market share about 2 percentage points in the 1970s, and in 1980 the shares of both countries reached near their highest level during the 10-year span.
- The Europeans, as a whole, saw their market share slipping, with West Germany, the United Kingdom, and Sweden absorbing the largest losses. France and Italy had the best performance among the European industrial nations.

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Figure II-9

Percent of total
industrial country exports,
measured in volume termsIndustrial Countries:
Share of World Market for Manufactures

| | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
|--------------------|------|------|------|------|------|------|------|------|------|------|
| United States | 15.1 | 14.8 | 16.2 | 17.2 | 17.6 | 15.9 | 15.3 | 16.0 | 16.2 | 17.4 |
| Japan | 12.4 | 12.1 | 11.4 | 11.9 | 13.0 | 14.1 | 15.1 | 14.5 | 13.5 | 15.3 |
| Germany | 21.2 | 21.4 | 21.7 | 22.0 | 19.5 | 21.2 | 19.8 | 19.2 | 19.5 | 19.3 |
| France | 8.9 | 9.3 | 9.1 | 9.2 | 9.7 | 9.3 | 9.7 | 9.8 | 10.2 | 9.7 |
| United Kingdom | 9.4 | 8.4 | 8.2 | 7.8 | 8.3 | 7.7 | 8.0 | 7.6 | 7.3 | 7.0 |
| Italy | 6.9 | 7.2 | 7.0 | 6.8 | 7.2 | 7.4 | 7.6 | 8.2 | 8.4 | 7.7 |
| Canada | 4.1 | 4.1 | 4.0 | 3.6 | 3.7 | 3.8 | 4.1 | 4.3 | 4.3 | 4.0 |
| Netherlands | 4.8 | 4.9 | 5.0 | 4.8 | 4.7 | 4.8 | 4.6 | 4.4 | 4.5 | 4.4 |
| Sweden | 3.6 | 3.4 | 3.5 | 3.4 | 3.4 | 3.0 | 2.9 | 2.9 | 3.0 | 2.7 |
| Belgium/Luxembourg | 5.5 | 5.9 | 5.8 | 5.4 | 5.2 | 5.3 | 5.2 | 5.2 | 5.1 | 4.9 |
| Switzerland | 3.3 | 3.2 | 3.1 | 2.9 | 2.9 | 2.8 | 3.0 | 3.0 | 2.9 | 2.8 |
| Austria | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.7 | 1.8 | 1.9 |
| Denmark | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Norway | 0.9 | 1.1 | 1.2 | 1.0 | 1.0 | 0.9 | 0.9 | 0.9 | 0.8 | 0.7 |
| Finland | 1.2 | 1.3 | 1.2 | 1.1 | 1.1 | 1.1 | 1.1 | 1.2 | 1.2 | 1.2 |

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Industrial Countries:

Share of EC

Market for

Manufactures

- Patterns similar to the global trends occurred in the EC market.

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Figure II-10

**Industrial Countries:
Share of EC Export Market for Manufactures**

Percent of total
industrial country exports,
measured in volume terms

| | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
|--------------------|------|------|------|------|------|------|------|------|------|------|
| United States | 9.5 | 8.7 | 9.5 | 10.1 | 10.0 | 8.8 | 8.7 | 9.3 | 9.5 | 11.0 |
| Japan | 3.1 | 3.6 | 3.5 | 3.4 | 3.8 | 4.2 | 4.7 | 4.6 | 4.3 | 5.2 |
| Germany | 25.8 | 25.4 | 25.7 | 26.2 | 23.6 | 26.0 | 24.2 | 23.0 | 23.5 | 23.5 |
| France | 12.1 | 12.7 | 12.4 | 12.8 | 13.0 | 12.0 | 12.7 | 13.1 | 13.2 | 12.6 |
| United Kingdom | 6.6 | 6.2 | 6.4 | 6.8 | 7.3 | 7.1 | 7.7 | 7.4 | 7.4 | 7.1 |
| Italy | 9.2 | 9.5 | 9.0 | 8.5 | 9.4 | 9.8 | 10.0 | 10.8 | 10.8 | 9.8 |
| Canada | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.7 | 0.8 |
| Netherlands | 8.3 | 8.2 | 8.2 | 8.3 | 8.3 | 8.2 | 7.8 | 7.3 | 7.7 | 7.6 |
| Sweden | 4.4 | 3.9 | 4.1 | 4.0 | 3.9 | 3.5 | 3.5 | 3.5 | 3.5 | 3.3 |
| Belgium/Luxembourg | 11.1 | 11.9 | 11.4 | 10.7 | 11.1 | 11.4 | 11.0 | 10.9 | 10.3 | 9.8 |
| Switzerland | 3.9 | 3.7 | 3.5 | 3.5 | 3.6 | 3.4 | 3.7 | 3.8 | 3.6 | 3.6 |
| Austria | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 2.0 | 2.2 | 2.4 | 2.5 | 2.6 |
| Denmark | 1.1 | 1.1 | 1.1 | 1.1 | 1.2 | 1.1 | 1.0 | 1.1 | 1.1 | 1.2 |
| Norway | 1.2 | 1.3 | 1.2 | 1.2 | 1.4 | 1.0 | 1.0 | 1.2 | 0.8 | 0.8 |
| Finland | 1.2 | 1.2 | 1.2 | 1.1 | 1.0 | 1.0 | 1.0 | 1.1 | 1.1 | 1.1 |

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**Industrial Countries:
Share of Japanese
Market for
Manufactures**

- In the Japanese market, the US share remained both large and rather constant, with a particularly good showing in 1980.
- West Germany and Switzerland have seen their market shares slip considerably since 1977.

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Figure II-11

Percent of total
industrial country exports,
measured in volume terms**Industrial Countries:
Share of Japanese Market for Manufactures**

| | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
|--------------------|------|------|------|------|------|------|------|------|------|------|
| United States | 53.0 | 52.5 | 51.4 | 53.2 | 53.3 | 51.8 | 50.3 | 51.6 | 53.7 | 57.5 |
| Japan | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Germany | 16.9 | 16.8 | 16.6 | 16.2 | 14.1 | 16.6 | 16.2 | 15.5 | 15.1 | 13.6 |
| France | 4.4 | 5.5 | 5.3 | 4.9 | 5.3 | 5.2 | 5.5 | 5.3 | 5.7 | 6.3 |
| United Kingdom | 8.5 | 7.2 | 7.2 | 7.3 | 8.3 | 7.1 | 8.3 | 7.1 | 6.0 | 5.4 |
| Italy | 3.3 | 3.7 | 4.6 | 4.1 | 4.6 | 4.9 | 4.8 | 5.4 | 5.7 | 4.4 |
| Canada | 1.4 | 1.4 | 1.4 | 1.6 | 1.7 | 1.9 | 1.9 | 2.0 | 1.9 | 2.5 |
| Netherlands | 1.3 | 1.3 | 1.4 | 1.4 | 1.5 | 1.6 | 1.9 | 1.7 | 1.5 | 1.3 |
| Sweden | 2.2 | 1.9 | 2.1 | 2.0 | 2.1 | 2.0 | 2.1 | 2.2 | 2.1 | 1.9 |
| Belgium/Luxembourg | 1.4 | 1.6 | 1.8 | 1.6 | 1.1 | 1.0 | 1.0 | 1.0 | 0.7 | 0.7 |
| Switzerland | 5.7 | 6.0 | 5.9 | 5.4 | 5.6 | 5.3 | 5.3 | 5.2 | 4.9 | 4.1 |
| Austria | 0.5 | 0.7 | 0.7 | 0.6 | 0.6 | 0.5 | 0.5 | 0.6 | 0.8 | 0.9 |
| Denmark | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 |
| Norway | 0.4 | 0.4 | 0.4 | 0.4 | 0.5 | 0.6 | 0.6 | 0.4 | 0.5 | 0.4 |
| Finland | 0.1 | 0.3 | 0.5 | 0.6 | 0.4 | 0.6 | 0.7 | 1.1 | 0.6 | 0.3 |

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**Industrial Countries:
Share of OPEC
Market for
Manufactures**

- The US share of OPEC markets has slid somewhat since 1976.
- Much of the US decline in 1980 reflects the loss of the Iranian market.
- The Japanese and the Italians have improved their market positions significantly.
- The United Kingdom, France, and West Germany lost in this market.

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Figure II-12

Percent of total
industrial country exports,
measured in volume termsIndustrial Countries:
Share of OPEC Market for Manufactures

| | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
|--------------------|------|------|------|------|------|------|------|------|------|------|
| United States | 19.8 | 19.8 | 19.5 | 19.6 | 20.8 | 20.4 | 18.6 | 19.4 | 19.4 | 18.3 |
| Japan | 17.4 | 18.1 | 18.3 | 20.0 | 21.0 | 19.6 | 21.0 | 20.3 | 21.3 | 24.2 |
| Germany | 16.1 | 16.5 | 17.1 | 18.1 | 16.6 | 18.3 | 17.6 | 17.0 | 15.3 | 14.1 |
| France | 12.7 | 11.3 | 11.6 | 12.2 | 11.2 | 10.1 | 9.9 | 9.2 | 11.0 | 10.5 |
| United Kingdom | 13.8 | 12.1 | 11.3 | 9.5 | 10.1 | 9.9 | 10.4 | 10.6 | 8.4 | 8.7 |
| Italy | 7.9 | 8.9 | 8.9 | 8.9 | 8.5 | 8.9 | 9.9 | 10.6 | 11.5 | 11.1 |
| Canada | 1.5 | 1.7 | 1.3 | 1.3 | 1.5 | 1.6 | 1.5 | 1.8 | 1.9 | 1.6 |
| Netherlands | 2.6 | 3.0 | 2.7 | 2.1 | 2.1 | 2.5 | 2.1 | 2.3 | 2.1 | 2.3 |
| Sweden | 1.6 | 1.6 | 1.6 | 1.6 | 1.7 | 2.0 | 1.6 | 1.7 | 2.0 | 1.8 |
| Belgium/Luxembourg | 2.0 | 2.6 | 3.1 | 2.4 | 2.4 | 2.2 | 2.5 | 2.6 | 2.6 | 2.3 |
| Switzerland | 2.5 | 2.4 | 2.5 | 2.3 | 2.0 | 2.2 | 2.6 | 2.5 | 2.4 | 2.3 |
| Austria | 0.7 | 0.8 | 0.8 | 0.8 | 0.8 | 1.1 | 0.8 | 0.8 | 0.8 | 1.1 |
| Denmark | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Norway | 0.3 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 | 0.4 | 0.3 | 0.3 | 0.4 |
| Finland | 0.4 | 0.4 | 0.4 | 0.4 | 0.2 | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 |

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**Industrial Countries:
Share of Non-OPEC
LDC Market for
Manufactures**

- The United States did very well in the non-OPEC LDC markets, although the movements have been erratic.
- The Japanese about held their own, while the major losers have been the Europeans, especially West Germany and the United Kingdom.

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Figure II-13

Percent of total
industrial country exports,
measured in volume terms**Industrial Countries:
Share of Non-OPEC LDC Market for Manufactures**

| | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
|--------------------|------|------|------|------|------|------|------|------|------|------|
| United States | 22.4 | 23.2 | 25.8 | 27.4 | 27.2 | 25.3 | 23.8 | 25.4 | 28.3 | 31.2 |
| Japan | 27.8 | 27.0 | 27.7 | 26.8 | 27.3 | 30.0 | 31.2 | 29.9 | 27.6 | 28.4 |
| Germany | 12.6 | 12.2 | 12.1 | 13.2 | 10.8 | 12.0 | 10.7 | 10.2 | 10.4 | 9.7 |
| France | 9.0 | 9.5 | 8.7 | 8.1 | 9.6 | 9.9 | 10.5 | 9.9 | 10.2 | 8.9 |
| United Kingdom | 11.4 | 9.9 | 8.6 | 7.6 | 8.5 | 7.7 | 7.9 | 7.9 | 7.0 | 6.2 |
| Italy | 4.4 | 4.8 | 4.1 | 4.5 | 4.7 | 4.3 | 4.5 | 5.0 | 5.1 | 4.8 |
| Canada | 1.5 | 1.6 | 1.3 | 1.4 | 1.5 | 1.4 | 1.4 | 1.4 | 1.6 | 1.9 |
| Netherlands | 2.0 | 2.3 | 2.1 | 2.0 | 2.2 | 1.9 | 1.9 | 1.9 | 1.8 | 1.6 |
| Sweden | 1.9 | 2.2 | 2.0 | 2.0 | 1.9 | 1.8 | 1.7 | 1.9 | 1.6 | 1.5 |
| Belgium/Luxembourg | 1.9 | 1.9 | 1.8 | 2.0 | 1.8 | 1.5 | 1.5 | 1.6 | 1.5 | 1.6 |
| Switzerland | 2.8 | 2.7 | 2.5 | 2.3 | 2.2 | 2.1 | 2.3 | 2.3 | 2.3 | 2.0 |
| Austria | 0.6 | 0.6 | 0.5 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 | 0.7 | 0.6 |
| Denmark | 0.7 | 0.8 | 0.8 | 0.7 | 0.7 | 0.5 | 0.6 | 0.5 | 0.5 | 0.5 |
| Norway | 0.5 | 0.9 | 1.5 | 1.1 | 0.8 | 0.9 | 1.1 | 0.9 | 1.0 | 0.6 |
| Finland | 0.4 | 0.4 | 0.5 | 0.5 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 |

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**Industrial Countries:
Share of NIC
Market for
Manufactures**

- In the dynamic markets of the newly industrializing countries (NICs)—a subgroup of non-OPEC LDCs—the United States did particularly well.
- The Japanese share peaked in 1977 and has since fallen off.
- All European countries did poorly in these markets.

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Confidential**Figure II-14**Percent of total
industrial country exports,
measured in volume terms**Industrial Countries:
Share of NIC Market for Manufactures**

| | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
|--------------------|------|------|------|------|------|------|------|------|------|------|
| United States | 29.6 | 31.6 | 35.2 | 37.0 | 37.1 | 35.2 | 32.2 | 32.5 | 35.9 | 39.9 |
| Japan | 33.7 | 33.5 | 32.4 | 30.2 | 30.9 | 35.1 | 40.0 | 39.9 | 36.9 | 35.0 |
| Germany | 11.5 | 11.9 | 11.3 | 12.5 | 9.9 | 10.0 | 8.2 | 8.3 | 8.7 | 7.8 |
| France | 3.8 | 3.2 | 3.1 | 2.8 | 3.8 | 3.6 | 3.6 | 3.7 | 3.5 | 3.0 |
| United Kingdom | 7.4 | 6.3 | 5.6 | 5.2 | 5.5 | 4.9 | 5.0 | 4.7 | 4.4 | 4.0 |
| Italy | 3.1 | 3.0 | 2.7 | 2.8 | 3.4 | 2.8 | 2.5 | 3.0 | 2.5 | 2.2 |
| Canada | 1.1 | 1.2 | 1.1 | 1.2 | 1.5 | 1.3 | 1.3 | 1.1 | 1.2 | 1.8 |
| Netherlands | 1.6 | 1.5 | 1.4 | 1.3 | 1.1 | 1.0 | 1.1 | 1.1 | 1.1 | 0.9 |
| Sweden | 1.8 | 1.8 | 1.7 | 1.6 | 1.8 | 1.5 | 1.1 | 1.1 | 1.0 | 1.1 |
| Belgium/Luxembourg | 1.3 | 1.2 | 1.0 | 1.6 | 1.2 | 0.9 | 0.8 | 0.9 | 0.9 | 1.2 |
| Switzerland | 3.4 | 3.0 | 3.0 | 2.5 | 2.4 | 2.5 | 2.5 | 2.4 | 2.4 | 2.1 |
| Austria | 0.5 | 0.5 | 0.3 | 0.3 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 |
| Denmark | 0.6 | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 |
| Norway | 0.2 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.8 | 0.4 | 0.5 | 0.2 |
| Finland | 0.5 | 0.5 | 0.5 | 0.3 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.2 |

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**US Share of NIC
Markets for
Manufactures**

- A closer look at the NIC markets shows significant US gains in each.
- In the fast-growing Mexican market of the late 1970s, the United States even increased its already large market share.

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Figure II-15

Percent of total
industrial country exports,
measured in volume termsUS Share of NIC
Market for Manufactures

| | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
|------------------------------------|------|------|------|------|------|------|------|------|------|------|
| World | 15.1 | 14.8 | 16.2 | 17.2 | 17.6 | 15.9 | 15.3 | 16.0 | 16.2 | 17.4 |
| Newly industrializing countries | 29.6 | 31.6 | 35.2 | 37.0 | 37.1 | 35.2 | 32.2 | 32.5 | 35.9 | 39.9 |
| Mexico | 59.4 | 62.3 | 67.1 | 68.1 | 67.3 | 67.4 | 67.1 | 67.6 | 70.6 | 70.8 |
| Brazil | 31.9 | 32.8 | 36.2 | 35.4 | 35.7 | 35.8 | 36.1 | 35.5 | 36.1 | 40.7 |
| Hong Kong | 14.9 | 16.1 | 19.5 | 21.2 | 19.4 | 18.7 | 17.2 | 16.6 | 18.4 | 19.6 |
| South Korea | 17.5 | 15.7 | 18.0 | 17.5 | 18.2 | 18.0 | 15.2 | 16.4 | 18.5 | 22.4 |
| Taiwan | 16.0 | 20.7 | 24.6 | 28.5 | 29.6 | 26.9 | 26.0 | 24.6 | 26.5 | 30.7 |
| Singapore | 21.9 | 22.5 | 28.8 | 30.3 | 27.5 | 25.5 | 26.2 | 27.7 | 32.0 | 30.2 |

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**Industrial Countries:
Share of Communist
World Market for
Manufactures**

- The US share of the Communist world market has remained at about the same low level, with sales to China replacing those to European Communist countries toward the end of the 1970s.
- Japan has steadily increased its market share since the mid-1970s; so have Canada and Finland, on a small scale.
- The Italians and the French were the major losers.

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Figure II-16

Percent of total
industrial country exports,
measured in volume terms**Industrial Countries:
Share of Communist World Market for Manufactures**

| | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
|--------------------|------|------|------|------|------|------|------|------|------|------|
| United States | 4.4 | 3.8 | 5.2 | 5.0 | 4.7 | 4.3 | 3.4 | 3.5 | 4.7 | 5.3 |
| Japan | 17.5 | 16.6 | 15.2 | 17.1 | 18.9 | 18.6 | 19.5 | 20.7 | 20.6 | 23.9 |
| Germany | 22.8 | 27.4 | 30.2 | 30.2 | 26.6 | 28.2 | 26.2 | 26.1 | 25.9 | 23.5 |
| France | 11.9 | 10.5 | 9.6 | 8.5 | 11.0 | 11.3 | 10.7 | 10.3 | 11.1 | 10.0 |
| United Kingdom | 8.1 | 7.0 | 6.5 | 5.1 | 5.3 | 4.8 | 5.3 | 5.0 | 5.3 | 4.9 |
| Italy | 10.6 | 9.0 | 8.6 | 8.8 | 8.7 | 8.5 | 8.9 | 8.7 | 8.1 | 7.1 |
| Canada | 0.3 | 0.3 | 0.2 | 0.3 | 0.5 | 0.5 | 0.5 | 0.9 | 1.3 | 1.4 |
| Netherlands | 2.5 | 2.6 | 2.6 | 3.0 | 3.0 | 2.5 | 2.6 | 2.8 | 2.9 | 2.9 |
| Sweden | 4.1 | 3.4 | 3.7 | 3.7 | 4.0 | 3.1 | 2.9 | 2.8 | 2.9 | 2.5 |
| Belgium/Luxembourg | 2.3 | 2.7 | 3.5 | 3.8 | 3.2 | 2.9 | 2.8 | 3.0 | 2.6 | 2.7 |
| Switzerland | 3.7 | 3.9 | 3.9 | 3.4 | 3.2 | 3.3 | 3.7 | 3.4 | 3.1 | 2.9 |
| Austria | 5.1 | 5.1 | 4.7 | 4.9 | 4.5 | 4.8 | 5.2 | 5.2 | 5.4 | 5.3 |
| Denmark | 1.6 | 1.4 | 1.0 | 1.1 | 1.1 | 1.0 | 1.2 | 0.9 | 0.8 | 0.7 |
| Norway | 0.6 | 0.9 | 0.7 | 0.9 | 1.0 | 0.7 | 1.1 | 1.0 | 0.5 | 0.6 |
| Finland | 4.5 | 5.4 | 4.5 | 4.2 | 4.5 | 5.5 | 6.1 | 5.9 | 4.9 | 6.4 |

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**Industrial Countries:
Share of US Market
for Manufactures**

- Japan made the largest gains in the US market.
- The major losers were the Europeans, especially West Germany in the first half of the 1970s, and Belgium, Sweden, and the United Kingdom in the latter half.

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Figure II-17

**Industrial Countries:
Share of US Market for Manufactures**

Percent of total
industrial country exports,
measured in volume terms

| | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
|--------------------|------|------|------|------|------|------|------|------|------|------|
| Japan | 30.3 | 29.5 | 25.7 | 26.6 | 28.3 | 33.2 | 33.9 | 32.8 | 32.1 | 36.4 |
| Germany | 16.8 | 16.5 | 17.1 | 16.8 | 13.3 | 12.5 | 12.6 | 12.4 | 12.5 | 12.5 |
| France | 4.1 | 4.3 | 4.2 | 5.1 | 4.6 | 4.6 | 4.9 | 5.1 | 4.9 | 4.6 |
| United Kingdom | 7.5 | 7.4 | 8.0 | 7.4 | 7.9 | 7.2 | 6.3 | 6.2 | 5.8 | 5.6 |
| Italy | 5.3 | 5.7 | 5.2 | 5.1 | 5.2 | 4.7 | 4.5 | 5.2 | 5.2 | 4.1 |
| Canada | 25.4 | 25.8 | 28.8 | 27.8 | 30.9 | 29.8 | 29.7 | 30.0 | 31.1 | 28.6 |
| Netherlands | 1.5 | 1.7 | 1.7 | 2.1 | 1.6 | 1.5 | 1.6 | 1.5 | 1.5 | 1.5 |
| Sweden | 2.2 | 2.3 | 2.2 | 2.1 | 2.2 | 1.6 | 1.6 | 1.9 | 1.9 | 1.7 |
| Belgium/Luxembourg | 2.8 | 2.7 | 2.8 | 3.1 | 2.2 | 1.6 | 1.6 | 1.5 | 1.3 | 1.2 |
| Switzerland | 2.2 | 2.3 | 2.3 | 2.1 | 2.1 | 2.0 | 1.9 | 2.0 | 1.9 | 2.1 |
| Austria | 0.5 | 0.6 | 0.6 | 0.6 | 0.4 | 0.4 | 0.5 | 0.5 | 0.4 | 0.4 |
| Denmark | 0.5 | 0.5 | 0.5 | 0.5 | 0.6 | 0.5 | 0.4 | 0.4 | 0.5 | 0.4 |
| Norway | 0.2 | 0.3 | 0.3 | 0.4 | 0.4 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 |
| Finland | 0.5 | 0.6 | 0.5 | 0.4 | 0.3 | 0.3 | 0.4 | 0.4 | 0.5 | 0.4 |

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**Major Changes in US
Share of Industrial
Country Exports of
Manufactures**

- A look at various categories of manufactures indicates a mixed picture for the United States with both gains and losses.
- Among the losses there are categories—aircraft, jet engines, tractors, chemical elements—in which the US share declined from a near monopoly position to one of considerable dominance.

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Figure II-18

**Major Changes in US Share of Industrial Country Exports of Manufactures
(More than a 5-percentage-point change in the
US market share between 1970 and 1980)**

| | |
|--------|--------------------------------------|
| Gains | |
| | Power-generating equipment |
| | Fertilizer |
| | Electrical medical equipment |
| | Electrical measuring equipment |
| | Computers |
| | Agriculture machinery |
| | Miscellaneous chemicals |
| | Nonferrous metals |
| | Jewelry |
| Losses | |
| | Aircraft |
| | Miscellaneous scientific instruments |
| | Trains |
| | Transistors |
| | Trucks |
| | Road motor vehicle parts |
| | Jet engines |
| | Tractors |
| | Cameras |
| | Chemical elements |

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**III. Impact of Flexible
Exchange Rates**

The introduction of flexible exchange rates in the early 1970s has created a highly cyclical pattern in the international competitiveness of US manufactures that reverses about every three years. The period of "noncompetitiveness" now beginning is more a reflection of this cyclical pattern than of fundamental factors.

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**US Balance in
Manufactures and
Exchange Rate
Changes**

- The changeover in the early 1970s from a fixed to a flexible exchange rate regime has had an enormous impact on the trends in US foreign trade and those of other industrial countries. The new system was largely responsible for arresting the long-term erosion in the overall competitive position of the United States in world markets. It also has created a cyclical pattern in the trade position of industrial countries. Countries experiencing short deteriorations or improvements in their trade accounts soon find that the international value of their currencies is changing in a way that alters the trend.
- Exchange rate movements have been the major factor behind the erratic behavior of the US balance of manufactures (as well as US exports of manufactures in volume terms, and US market shares of industrial country exports of manufactures), although many factors have an influence including changing tastes, altered tariff structures, and differences in economic growth rates between the United States and its foreign markets.
- As can be seen in the figure, the changes in value of the US dollar have an impact with a lag of a year or two.
- The decline in the value of the US dollar against other major industrial country currencies in the early 1970s and again in the late 1970s was largely responsible for the improved US balance of manufactures that took place a year or so later.
- In contrast, the improvement in the dollar's value from 1973 to 1976 caused the deteriorating trade balance from 1975 to 1978.
- The changes in the value of the dollar, besides altering the competitiveness of US goods in world markets, have important domestic implications. The sharp devaluation of the dollar in the early 1970s, for example, clearly had an inflationary impact on the United States. Besides the direct effect of the higher prices paid for foreign goods, many US manufacturers found they could easily increase domestic prices and still be competitive.

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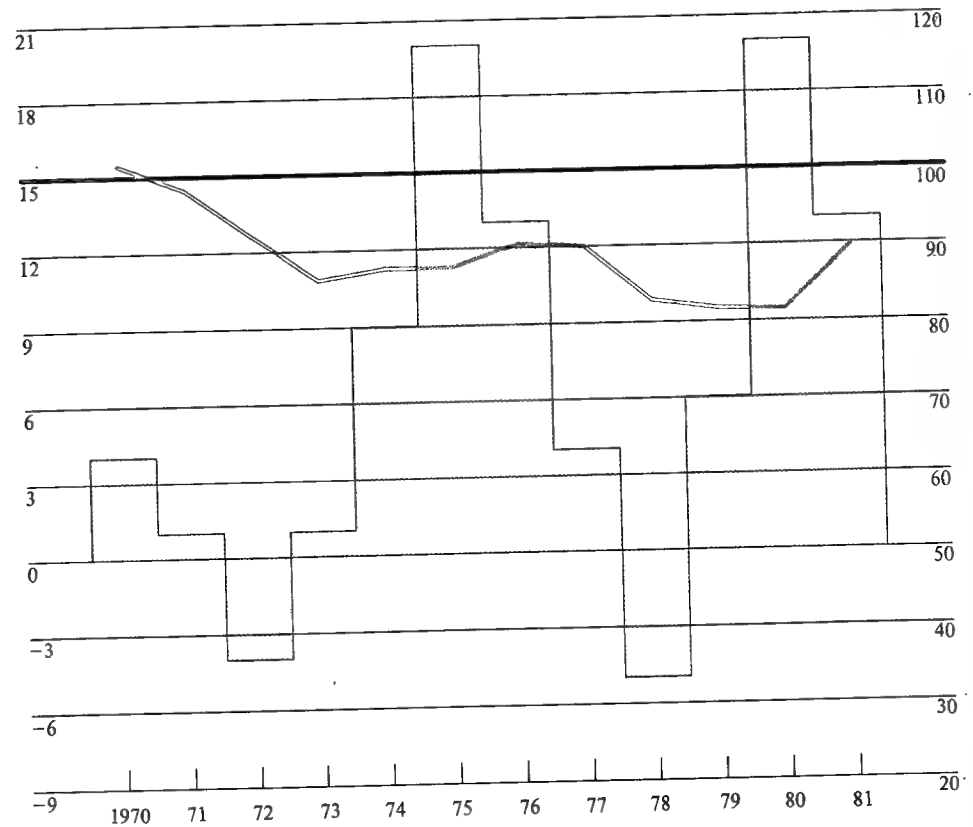
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Figure III-1
US Balance in Manufactures and Exchange Rate Changes

Note dual scale

US Balance in Manufactures
Billion \$

Value of US Dollar^a
Index: 1971=100



^aWeighted average of 14 industrial countries.

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**United States:
Volume of Exports
of Manufactures**

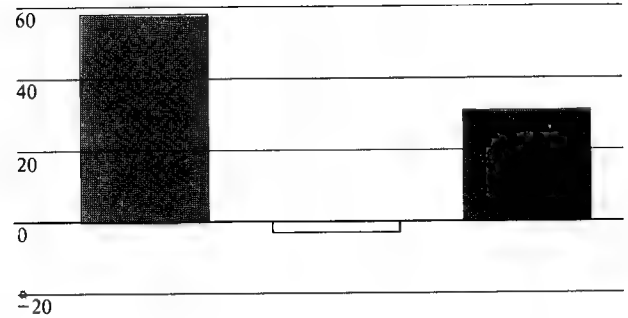
- The changes in the competitiveness of US manufactures have followed a distinct pattern since 1970. Every three years the trend in competitiveness has reversed.
- Again, this development largely stems from the impact of changes in the value of the dollar against other major currencies.

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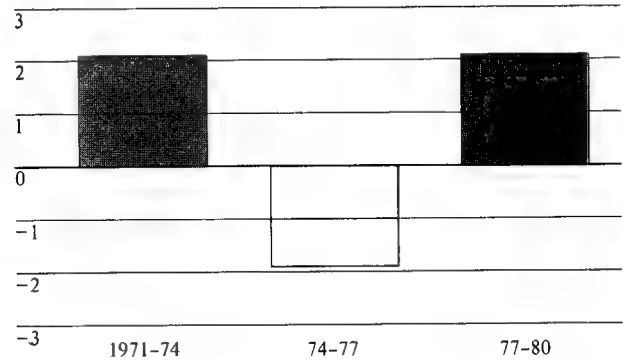
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Figure III-2
United States: Volume of Exports of Manufactures

Note change in scales
Percent of Change



Percentage Point
Change in US Share
of Industrial
Country Exports



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**Trends in US Export
Volume Shares**

- Reflecting the three-year pattern of change, the US competitive edge in the exports of manufactures began to slip in 1981. The roots of this change are embedded in the resurgence of the dollar beginning in mid-1980. By far the most serious problem is the strength of the dollar vis-a-vis the yen. The appreciation of the dollar against the mark and some other European currencies since late 1980 has also helped reduce US price competitiveness.
- The continuing high value of the dollar (through April 1982) does not augur well for US export competition in the next year or so.

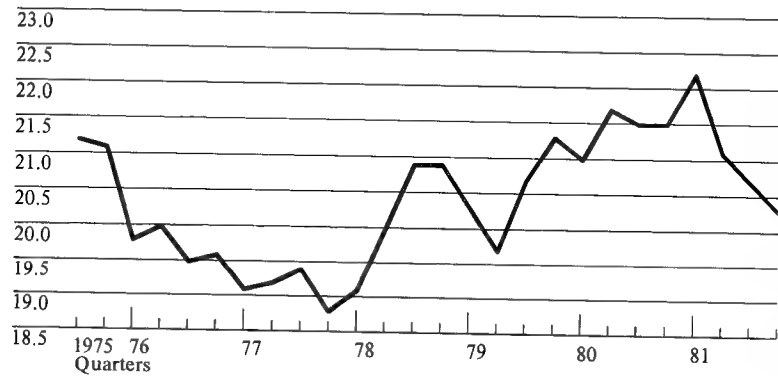
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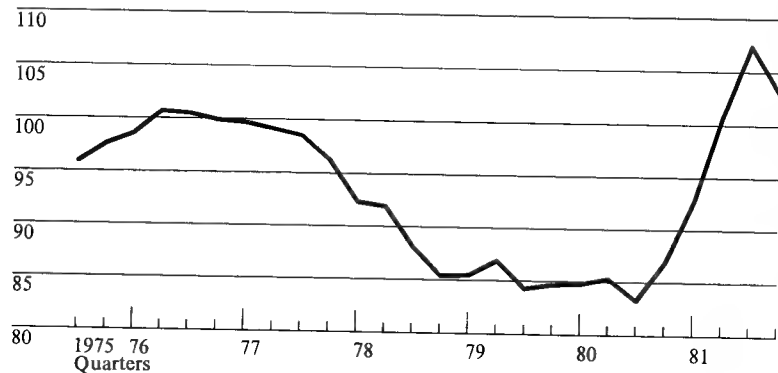
Figure III-3
Trends in US Export Volume Shares and the Dollar

Note change in scales

US Share of Industrial Country Exports
(Seasonally adjusted and measured in volume terms)
Percent



Dollar Value^a
4th Quarter 1976=100



^aTrade-weighted dollar index.

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IV. Trade Partners

The LDC role in the foreign trade of the United States and other industrial countries increased substantially in the 1970s. For the United States, this shift resulted from increased trade both with OPEC states and with the NICs; for the other industrial countries the shift was dominated by trade with OPEC.

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**United States: Trade
Partners**

- LDCs accounted for an increasing share of US trade during the 1970s, reversing the trend of the previous two decades. Oil and manufactures were the most important commodities represented in this shift.
- Nearly all the change in the past decade reflected increased trade with the OPEC members and the NICs. In fact, exports to other LDCs fell as a share of total US exports. On the import side, the increased share of the other LDCs was due entirely to oil purchases.

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Confidential**Figure IV-1**

Percent of total trade

United States: Trade Partners

| | Exports | | Imports | |
|-----------------------|-------------|-------------|-------------|-------------|
| | 1970 | 1980 | 1970 | 1980 |
| Developed | 71.4 | 60.5 | 73.6 | 52.1 |
| Canada | 21.0 | 16.0 | 27.7 | 16.6 |
| Japan | 10.8 | 9.4 | 14.7 | 13.0 |
| EC | 26.1 | 24.3 | 23.1 | 15.0 |
| Other | 13.5 | 10.8 | 8.1 | 7.5 |
| Less Developed | 27.8 | 36.0 | 25.8 | 46.8 |
| OPEC | 4.7 | 8.0 | 8.3 | 21.7 |
| NICs | 10.0 | 15.4 | 9.7 | 14.7 |
| Other | 13.1 | 12.6 | 7.8 | 10.4 |
| Communist | 0.8 | 3.5 | 0.6 | 1.1 |
| USSR | 0.3 | 0.7 | 0.2 | 0.2 |
| Eastern Europe | 0.5 | 1.1 | 0.4 | 0.4 |
| China | — | 1.7 | — | 0.5 |



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**Major Shifts Among
US Trade Partners**

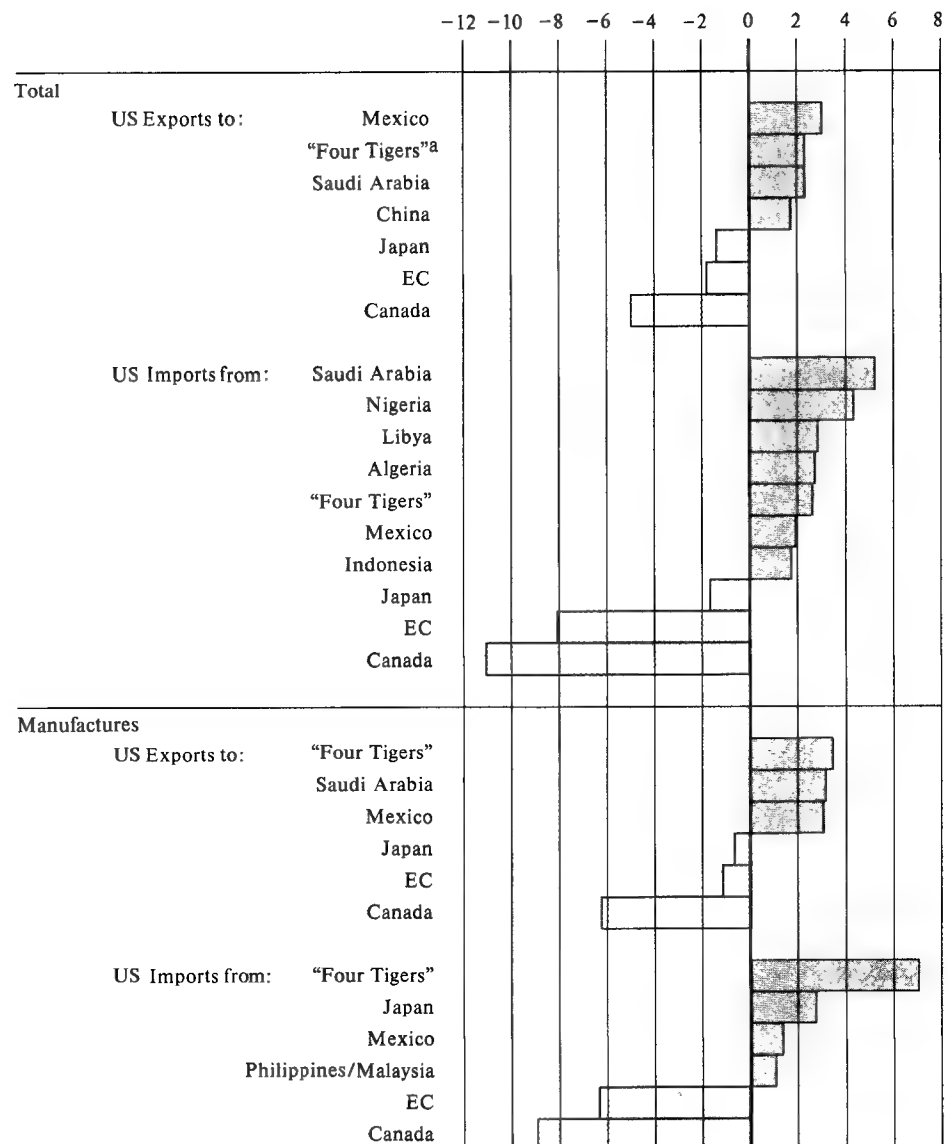
- Mexico, Saudi Arabia, and East Asia's "Four Tigers" (South Korea, Taiwan, Hong Kong, and Singapore) provided the most dynamic growth markets for US exports in the 1970s. The "Four Tigers" were especially important as expanding markets for US manufactures.
- In the case of imports, the largest jumps were with the oil-exporting countries of Saudi Arabia, Nigeria, Libya (no longer), and Algeria.
- By far the largest inroads into the US import market for manufactures were made by the "Four Tigers." As we have seen earlier, Japan also did very well in expanding its US import market share. Other countries that did particularly well in selling manufactures to the United States were Mexico and two East Asian countries nearing NIC status—the Philippines and Malaysia.
- At the other end of the spectrum, the Canadian position among major US trade partners fell substantially in both exports and imports. In the US market for manufactures, the EC position also slipped badly.

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Figure IV-2
Major Shifts Among US Trade Partners

Percentage Point Change, 1970-80



^aSouth Korea, Taiwan, Hong Kong, and Singapore.

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**Japan and the EC:
Trade Partners**

- For Japan and the EC, like the United States, the major change in foreign trade patterns resulted from the increased role of LDCs. But almost all the changes in trade, unlike those in the US trade, reflected exchanges with OPEC. The Japanese and EC shift toward the NICs was much smaller than in the US case.
- For Japan, there was a significant reduction in the relative importance of the US market and a considerable increase in the share of the exports shipped to the EC. By 1980, however, Japanese sales to the United States still counted for a very high proportion (25 percent) of Japan's total exports, a share that is double that of the EC.
- The share of Japanese and EC exports to the Communist countries changed little during the 1970s while the US share grew from almost nothing to near 4 percent. The United States' dependence on exports to the Communist market is about half that of the EC or Japan.

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Figure IV-3

Percent of total trade

Japan and the EC: Trade Partners

| | Exports | | Imports | |
|---------------------------|---------|------|---------|------|
| | 1970 | 1980 | 1970 | 1980 |
| <i>Japan</i> | | | | |
| Developed | 54.6 | 47.7 | 55.6 | 35.2 |
| United States | 31.1 | 24.5 | 29.5 | 17.4 |
| EC | 9.6 | 12.8 | 8.2 | 5.6 |
| Other | 13.9 | 10.4 | 17.9 | 12.2 |
| Less Developed | 38.9 | 45.0 | 39.1 | 59.9 |
| OPEC | 5.2 | 14.3 | 15.1 | 40.2 |
| NICs | 15.0 | 16.6 | 5.4 | 7.0 |
| Other | 18.7 | 14.1 | 18.6 | 12.7 |
| Communist | 6.5 | 7.3 | 5.3 | 4.9 |
| USSR | 1.8 | 2.1 | 2.5 | 1.3 |
| Eastern Europe | 0.5 | 0.6 | 0.6 | 0.2 |
| China | 2.9 | 3.9 | 1.3 | 3.1 |
| Other | 1.3 | 0.7 | 0.9 | 0.3 |
| <i>European Community</i> | | | | |
| Developed | 81.4 | 78.2 | 77.9 | 74.0 |
| United States | 8.2 | 5.6 | 10.6 | 8.4 |
| Japan | 1.2 | 1.0 | 1.4 | 2.4 |
| EC | 50.1 | 52.8 | 48.8 | 47.8 |
| Other | 21.9 | 18.8 | 17.1 | 15.4 |
| Less Developed | 13.4 | 17.1 | 18.4 | 21.8 |
| OPEC | 3.4 | 7.7 | 7.8 | 12.9 |
| NICs | 2.1 | 2.2 | 1.8 | 2.9 |
| Other | 7.9 | 7.2 | 8.8 | 6.0 |
| Communist | 5.2 | 4.7 | 3.7 | 4.2 |
| USSR | 1.2 | 1.6 | 1.3 | 2.1 |
| Eastern Europe | 3.3 | 2.5 | 2.0 | 1.6 |
| China | 0.4 | 0.4 | 0.3 | 0.4 |
| Other | 0.3 | 0.1 | 0.1 | 0.1 |

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**V. LDC Exports of
Manufactures**

During the 1970s the LDCs' (mainly the NICs') share of the US import market for manufactures jumped dramatically in a dozen or so product lines.

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**LDC Share of
Industrial Country
Imports of
Manufactures**

- The LDCs' share of total industrial country imports of manufactures doubled in the 1970s, reaching 9 percent in 1980. As in the Japanese case these sales are heavily concentrated in a few product lines. LDC market shares in some categories of manufactures such as radios and clothing have risen to nearly 40 percent.
- The LDCs, for at least a decade, have been major suppliers of clothing, fabrics, leather, plywood, and nonferrous metals.
- In more recent years they have taken a large share of OECD import markets for consumer electronics, toys, transistors, and watches.
- In the last two years, the LDC penetration of industrial country markets has been the greatest in watches, radios, ships, televisions, and telecommunications equipment.

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Figure V-1

Percent of total
industrial country
imports of manufacturesLCD Share of Industrial
Country Imports of Manufactures

| | 1970 | 1980 |
|------------------------------|------------|-------------------|
| Total | 4.5 | 9.0 |
| Radios | 15.1 | 40.6 |
| Clothing | 24.6 | 39.5 |
| Toys | 18.0 | 35.3 ^a |
| Transistors | 12.9 | 33.8 |
| Watches | 2.4 | 33.0 |
| Footwear | 10.4 | 29.9 |
| Leather | 21.2 | 27.7 |
| Television | 9.3 | 24.6 ^a |
| Plywood | 23.8 | 22.2 |
| Textile products | 14.0 | 22.1 |
| Cutlery | 7.6 | 20.3 |
| Telecommunications equipment | 4.4 | 19.4 ^a |
| Fabrics | 15.4 | 15.6 |
| Yarn | 4.4 | 12.3 |
| Jewelry | 8.0 | 12.2 |
| Ships | 2.5 | 12.1 ^a |
| Nonferrous metals | 18.7 | 11.8 |
| Electrical apparatus | 4.3 | 9.2 |
| Phonographs | 1.5 | 8.6 |
| Furniture | 2.9 | 8.4 |
| Electric power machinery | 1.5 | 8.0 ^a |
| Electric domestic equipment | 0.3 | 7.2 ^a |
| Handtools | 1.9 | 7.2 |

^a Share has grown rapidly in recent years.

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**Major LDC Exporters
of Manufactures to the
Industrial World**

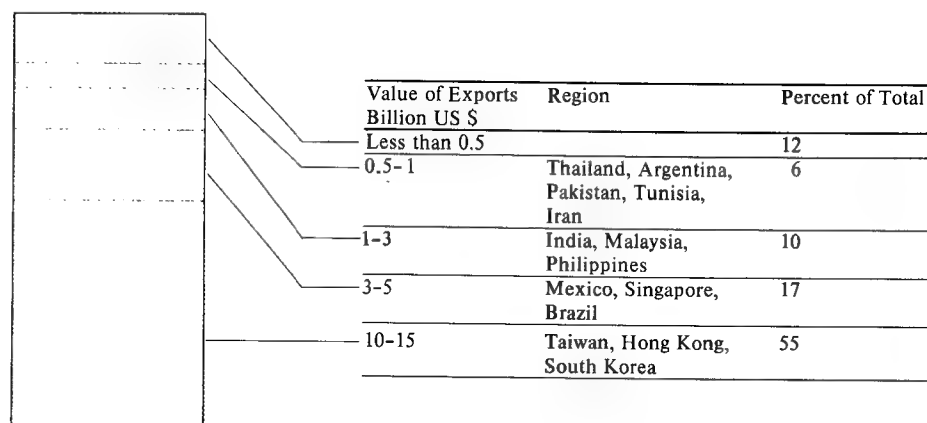
- A few LDCs account for the bulk of manufactures sold to the industrial world.
- Three countries provide more than half, and nine account for more than 80 percent.
- More than two-thirds of LDC shipments of manufactures come from East Asian countries.
- Only the top dozen or so LDCs are likely to have much of an impact on world markets in the 1980s. Although the sales of manufactures of a number of other countries are rising rapidly, they each now sell less than a half billion dollars' worth of manufactures to industrial countries.

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Figure V-2
Major LDC Exporters of Manufactures to the
Industrial World

Percent of Total Sales of \$62 Billion



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**Industrial Countries:
Imports of
Manufactures
From LDCs**

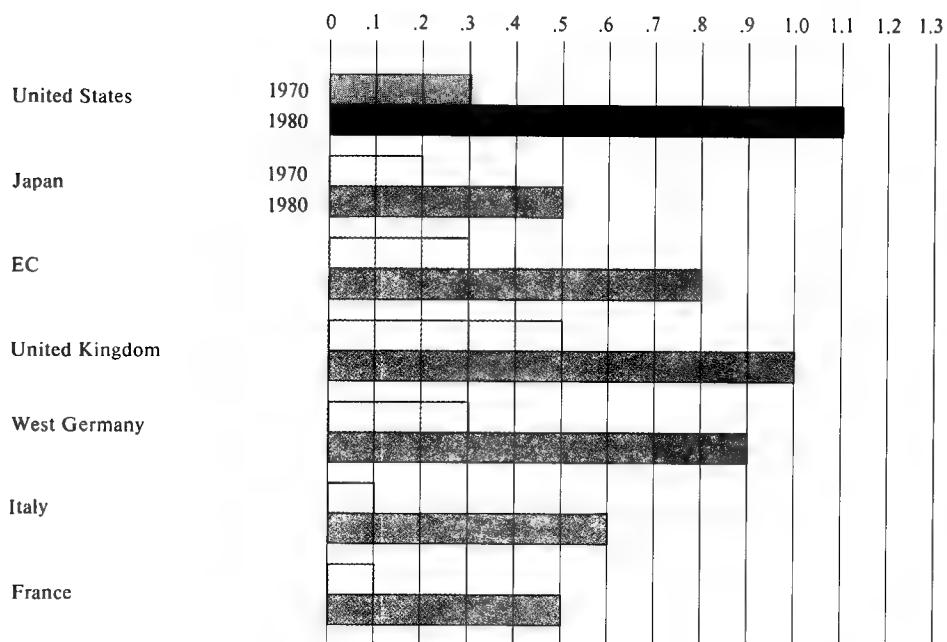
- US purchases of LDC manufactures are large when measured either by the actual or relative level.
- The United States buys almost half of the LDC exports of manufactures sold to industrial countries and has done so for more than a decade.
- The ratio of US imports from LDCs to US GNP tops that of any other developed country.
- Japan, France, and Italy buy relatively few manufactures from LDCs.
- The much greater relative penetration of the US market for manufactures by both the NICs and Japan reflects its larger size and easier access.
- Although the United States thus absorbs the brunt of the export onslaughts, it also benefits from increased competition. Consumers obtained less expensive and sometimes better quality goods. The competitive challenge also forced a more rapid (although painful) restructuring of US industry, especially in comparison with Western Europe.

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Figure V-3
Industrial Countries' Imports of Manufactures From LDCs
As a Share of GNP

Percent



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**US Imports of
Manufactures
From LDCs**

- LDC penetration of the US import market for manufactures is much higher than the industrial country average and has been for years.
- In 10 important product lines, the LDCs have captured 40 percent of US imports.
- The LDC market share jumped significantly in all the illustrated product lines in the 1970s, except for fabrics and transistors—product categories that were already high in 1970.
- Commodity categories with less than a 20-percent market share in 1980 but whose share has increased markedly since the mid-1970s include pumps, plastics, and metalworking machinery.
- Altogether, the NICs accounted for 80 percent of US imports of manufactures from the LDCs in 1980, as compared with a 60-percent average for the other industrial countries. The NIC share of US imports from LDCs was near 95 percent in the case of all shown products except fabrics, clothing, and transistors. The bulk of US transistor imports come from the ASEAN countries of Malaysia, the Philippines, and Thailand.

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Confidential**Figure V-4**Percent of imports
of manufactures**US Imports of Manufactures From LDCs**

| | 1970 | 1980 |
|---|-------------|-------------|
| Total | 11.9 | 22.9 |
| Clothing | 51.5 | 83.6 |
| Transistors | 62.4 | 73.6 |
| Toys | 31.9 | 67.8 |
| Television | 18.1 | 67.4 |
| Footwear | 13.3 | 61.8 |
| Radios | 21.3 | 51.5 |
| Ships | 17.8 | 48.7 |
| Telecommunications equipment | 17.9 | 48.5 |
| Fabrics | 38.3 | 45.8 |
| Watches | 3.0 | 44.6 |
| Domestic electrical equipment | 1.3 | 35.5 |
| Furniture | 9.9 | 35.1 |
| Other Categories Where Share Has Risen Rapidly Since Mid-1970s | | |
| Pumps | 1.3 | 17.9 |
| Plastics | 1.8 | 12.0 |
| Metalworking machinery | 0.4 | 9.1 |



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**VI. Trade Frictions
With Japan**

Intense frictions between Japan and its trade partners persisted throughout the 1970s, mainly because of the manner by which that country achieved its exceptionally large trade surpluses in manufactures. Its export surges were heavily concentrated in a few product lines, and its imports of manufactures remained at a low level. Throughout the decade the United States bought relatively more NIC and Japanese products than other industrial countries, thereby absorbing more of the brunt of the export onslaughts and more of the benefits of increased competition, especially for the consumer.

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Importance of Exports

- Although Japan should be expected to run large trade surpluses in manufactures because of its poor natural resource base, its surpluses remained exceptionally high throughout the 1970s and were obtained in ways that have had a highly disruptive impact on the global trading system.
- As we have seen, the trade problems with Japan have not resulted from that country's overall export growth or from an increasing domination of global export markets. Overall export growth in Japan in the 1970s did not top the expansion rate in the United States by much, and each of the countries increased its market share to about the same degree.
- Overall, US merchandise exports in 1980 were still nearly twice those of Japan, and if services are included the US level would certainly be more than double. Even in terms of manufactures, US exports were some 15 percent greater than those of Japan. Thus, the size and breadth of the US economy gives the United States a distinct advantage in maintaining its large share of world markets.
- Measured in relative terms (as compared with GNP), Japanese exports are about the same as those of the EC (excluding intra-EC trade) and somewhat higher than those of the United States. Inclusion of services would make the relative export proportions among the three fairly close.
- It is worth noting that the relative importance of total exports and exports of manufactures increased much more rapidly for the United States than for Japan or the EC in the 1970s.

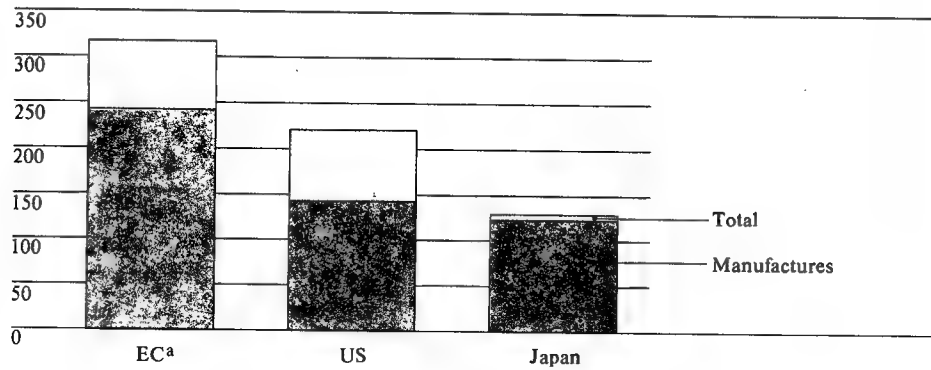
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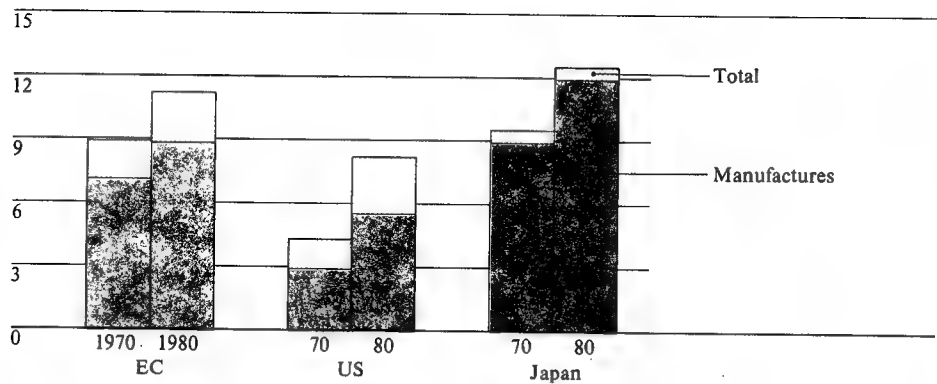
Figure VI-1
Importance of Exports

Note change in scales

Export Level
Billion \$ in 1980



Share of GNP
Percent



^aExcluding intra-EC trade.

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**Concentration of
Exports of
Manufactures**

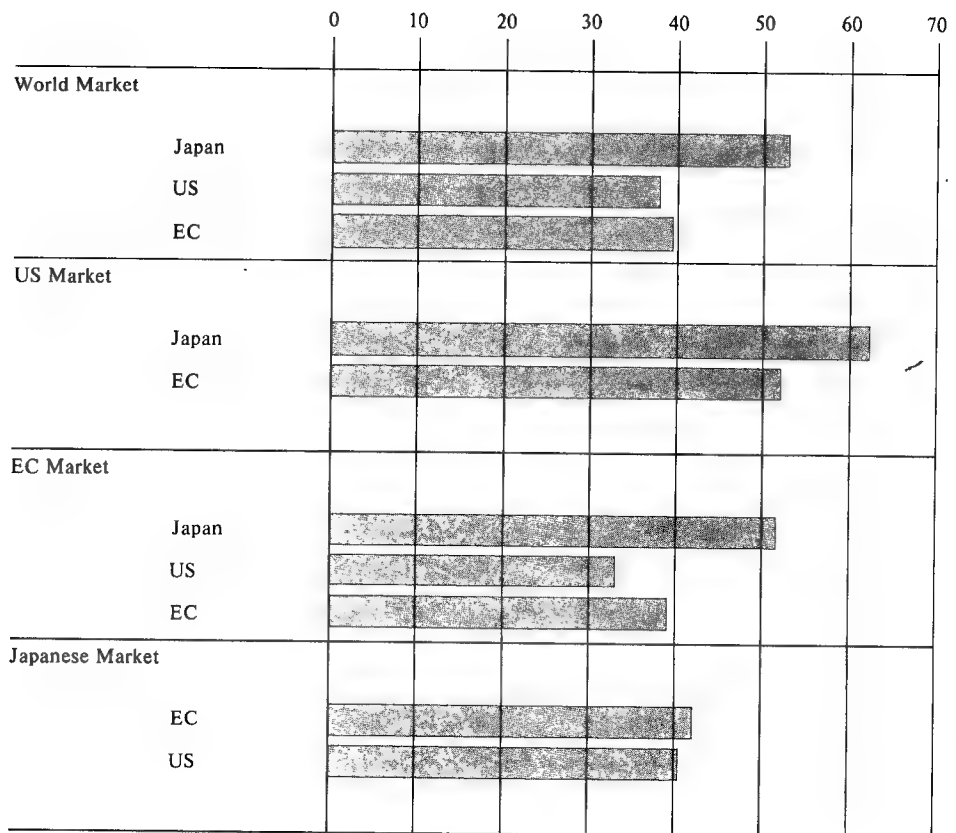
- In the case of exports, the major frictions with the Japanese reflect their heavy concentration on a relatively few product lines and the sudden surges of sales in these product lines. These actions have seriously disrupted the competing industries abroad because of the significant and sudden loss of jobs and profits.
- The concentration of exports by the Japanese can best be seen by comparing the percentage of their total exports of manufactures accounted for by the top five product lines with similar shares for the United States and the EC.
- In both the world market and in each major market, this Japanese concentration ratio is 50 percent or more, while the US and EC rates normally fall below 40 percent.
- At more than 60 percent, the Japanese concentration ratio is most pronounced in the United States. In fact, three commodities—motor vehicles, steel, and consumer electronics—account for 55 percent, with motor vehicles alone near 40 percent.
- These aspects of Japanese export expansion reflect the product development and marketing strategies pursued by Japanese firms. Enormous capital is pumped into new plants and equipment in select product lines so the industry can quickly secure a large share of the world market. The resulting rapid increases in productivity obtained through the introduction of modern equipment and much more efficient production techniques push costs down rather quickly, and allow the Japanese to cut prices. In addition, by sheltering some domestic industries from foreign competition, Japanese firms have increased sales in their large home market, thus, allowing them to quickly develop an international-scale industry. In one degree or another these strategies were followed in textiles, steel, cameras, motorcycles, small trucks, automobiles, consumer electronics, and 64K random access memories (RAMs).

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Figure VI-2
Concentration of Exports of Manufactures, 1980

Percentage of Manufactures Exports
 Represented by the Five Leading Exported Products



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**Japanese Surges in
Export Growth**

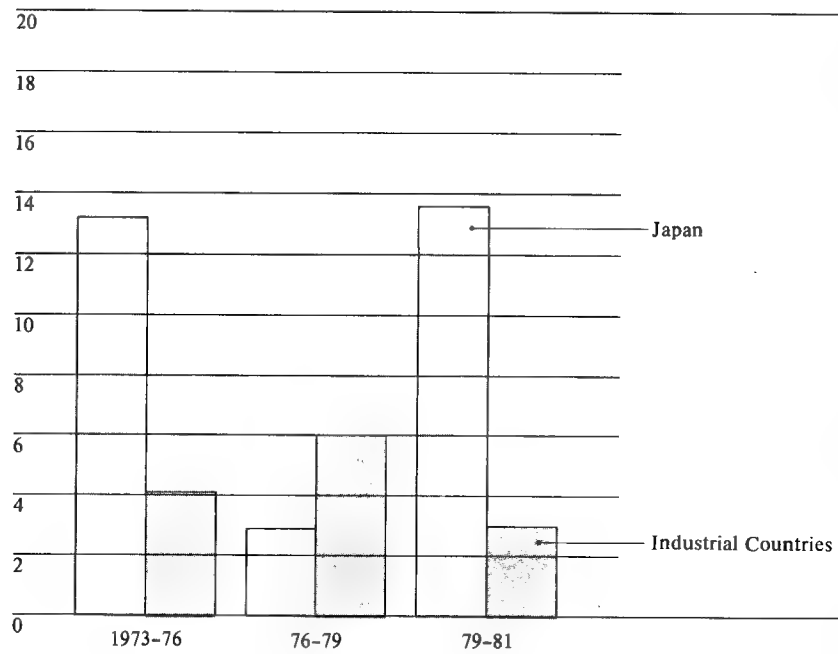
- Japanese companies are most aggressive in exporting manufactures when domestic demand falters. They do this by rigorous marketing and by convincing workers to temporarily accept cuts in real wages.
- Firms in other countries also pursue such recessionary strategies but the Japanese do so in a much more forceful manner because of their particular mode of business operations. Japanese companies are much less able to reduce costs during recessionary periods. Their lifetime employment practices mean that they cannot easily lay off workers. Their comparatively high reliance on loan capital rather than equity capital means they are burdened with continuing high debt servicing payments and gain little by cutting back dividends.
- The unusually high coincidence of recessionary periods among industrial countries (1974-75 and 1980-81) made the Japanese export drives even more politically sensitive. Many countries accused the Japanese of pursuing export-led growth at the expense of other industrial countries.

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Figure VI-3
Japanese Surges in Export Growth (Average Annual Rise in
Volume of Exports)

Percent



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**Japan: Imports of
Manufactures**

- Japanese imports of manufactures are small by any measure.
- They are small relative to the level of other industrial countries in 1980. They were equal only to those of Switzerland, a country whose economy is one-tenth that of Japan.
- They are small when equated to Japanese exports of manufactures.
- They are small in the two-way trade among industrial countries. Thus, Japan has not yet developed the large and fairly even flow of manufactures with other industrial countries that has characterized the growing interdependence among countries of North America and Western Europe, and between these regions.
- They are small when measured against GNP. Despite 10 years of considerable efforts by the United States and the EC to make Japan open up its market, the ratio of Japanese imports of manufactures to GNP remains near the low level of 1970. In contrast, the United States and the EC have each greatly increased their relative purchases in the past decade.
- Japan shields its domestic market from foreign competition mainly through an informal interaction of various interest groups, while tariffs and other statutory trade restrictions play a minimal role.
- Foreign firms in Japan must deal with (1) an array of restrictions involving inspections and approvals handled by an ambiguous bureaucratic process, (2) informal cartel arrangements among major producers, and (3) unwritten guidelines under which buyers purchase goods mainly from Japanese firms. As a result foreigners cannot easily pinpoint where and how the restrictions are being applied.

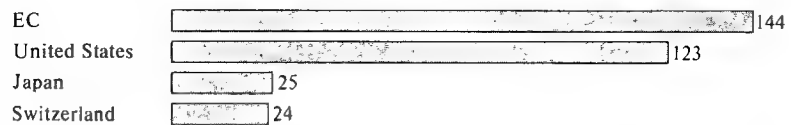
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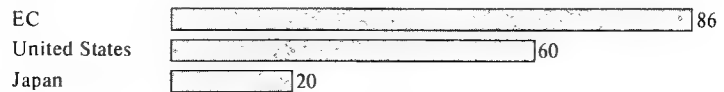
Figure VI-4
Japan: Imports of Manufactures

Note change in scales

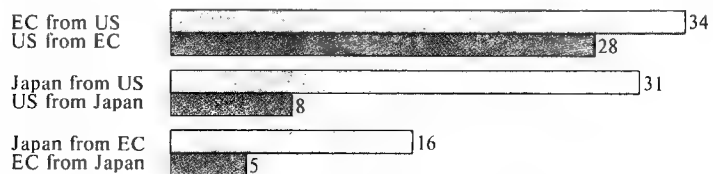
Value in 1980
Billion US \$



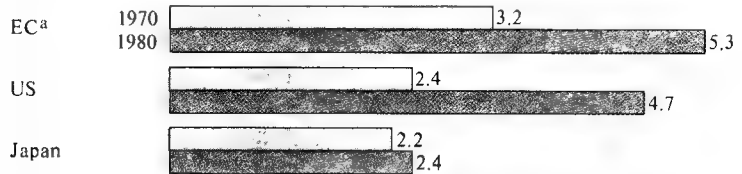
Ratio of Exports to
Manufactures, 1980
Percent



Regional Trade in 1980
Billion \$



As a Share of GNP
Percent



^aExcluding intra-EC trade.

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**Impact of Japanese
Exports of
Manufactures**

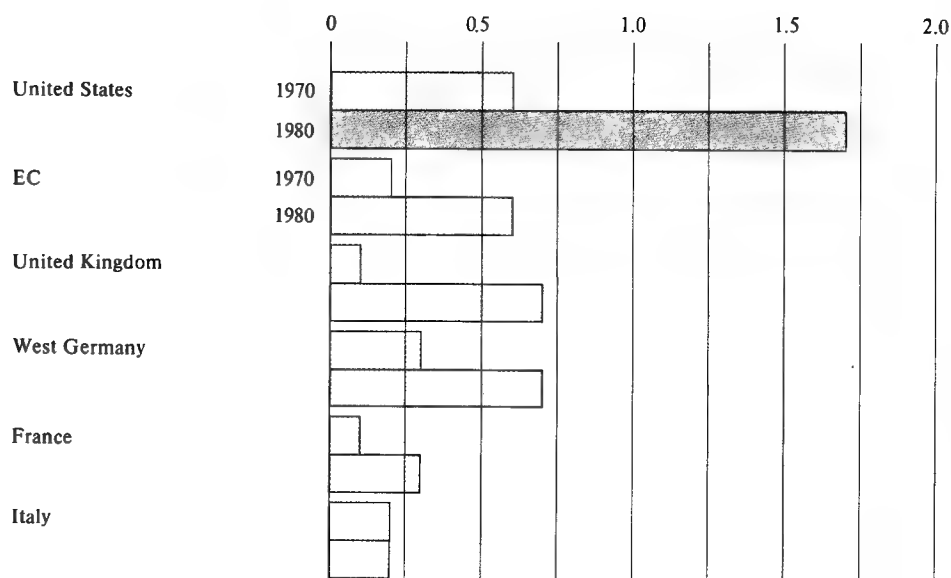
- The United States has taken the brunt of the Japanese export surge. US consumers, of course, have benefited from the Japanese price/quality competition.
- Despite the recent rapid rise in Japanese exports to the EC, that group takes a much smaller amount of such Japanese manufactures relative to GNP than does the United States. In fact, the EC absorbed in 1980 about the same share of GNP that the United States did in 1970.
- In Italy and France the purchases of Japanese manufactures remain an especially tiny portion of these countries' GNP.

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Figure VI-5
Industrial Countries: Imports of Manufactures From Japan

Percent of GNP



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**VII. Service Sector
Transactions**

Service sector transactions have become the most dynamic and important element of the US economy and its international economic relations; they are also the least understood.

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**United States:
The Growing
Importance of the
Service Sector**

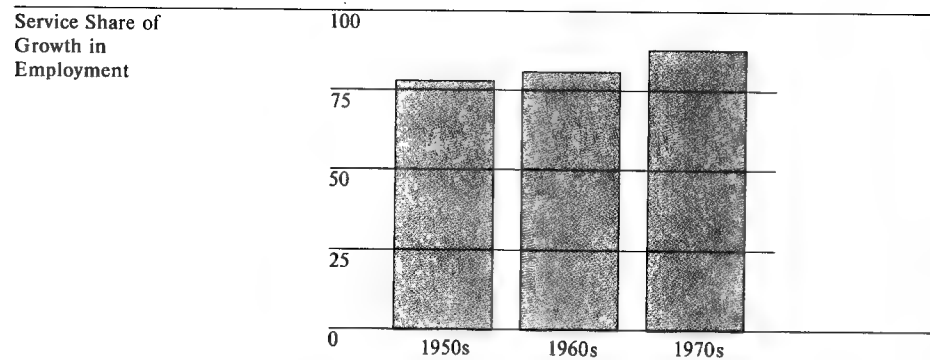
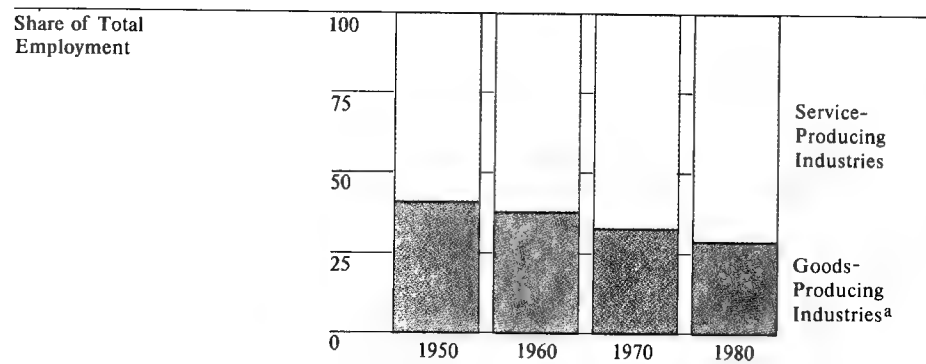
- The US economy increasingly is dominated by service activities. Service-producing industries now account for more than 70 percent of the US labor force and in the last decade provided for almost 90 percent of its growth.
- Relative to goods production, however, the service sector has been given little attention because of the paucity of information on services and the vague nature of these industries. In the international field for example, the United States divides "merchandise" trade into 10,000 categories; in services there are fewer than 10 breakdowns.
- Indeed, the US economy is experiencing a service transformation, in which a new set of linkages are being established through the growth of "integrative services" that interconnect firms, units of firms, and industries at different stages of production or in different locations. The distinctions between goods and service industries are increasingly breaking down, as the two aspects merge with each other. The most dramatic expansion is now taking place in this integrative part of the service sector that combines high technology with management/marketing know-how. This "information economy" marries computers and communications, which include "software" of all types, and a great variety of financial and diagnostic services.

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Figure VII-1
United States: The Growing Importance of the
Service Sector

Percent



^aIncludes construction.



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**US Current Account
Trends**

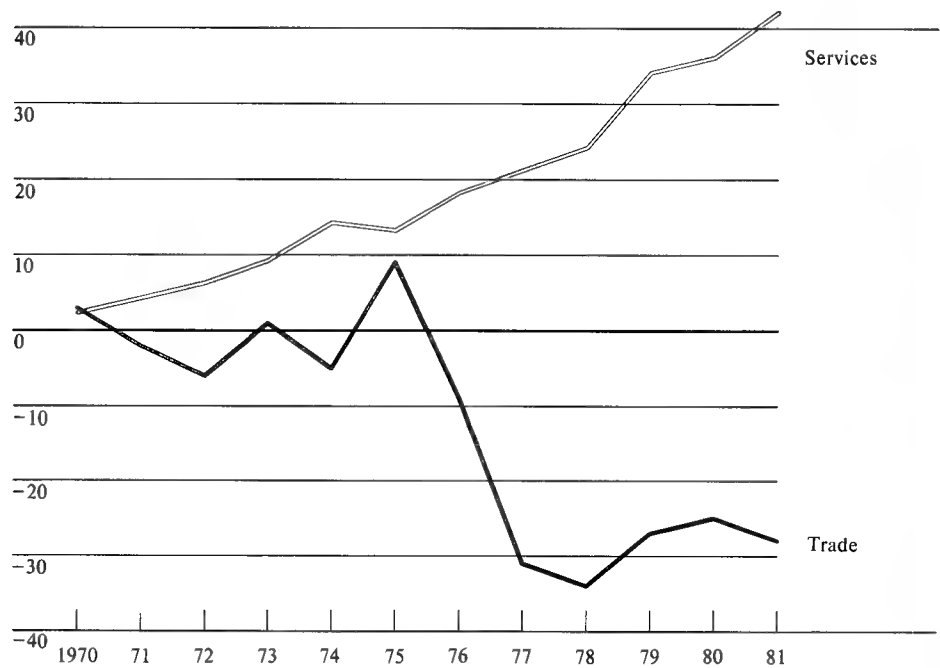
- Service transactions have played an increasingly important role in US current account transactions.
- While the US trade position (on a balance-of-payments basis) has deteriorated from a yearly average near zero in the first half of the 1970s to a deficit of some \$30 billion per year since then, the service surplus has climbed steadily, reaching \$40 billion in 1981.

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Figure VII-2
US Current Account Trends: Trade Versus Services

Billion \$



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**US "Service" Account
Flows**

- Balance-of-payments data on "services" provide a reasonable approximation of the total transactions. Their coverage of detailed categories, however, has numerous shortcomings. Most important, sales and receipts are not available on an industry basis, but rather reflect a hodgepodge of various types of foreign exchange receipts and outlays. Nonetheless, the categories shown in the figure, the only consistent set available, do provide a rudimentary starting point in indicating the types of transactions:

- *Transportation* of freight.
- *Tourism*, including moving people via aircraft and oceangoing vessels.
- *Fees and royalties* earned from selling know-how, ideas, technology, and management services.
- *Other private services*, including accounting, advertising, construction, franchising, information, entertainment, insurance, information, and leasing.
- *Direct investment income* earned through the operations of a company's foreign subsidiaries and branches.
- *Interest income* on foreign loans and deposits.
- *Private transfers*, including that portion of salaries earned abroad and sent home, and the flow of pensions and social security funds to and from foreign countries.
- *Military payments*, equaling the foreign exchange costs of stationing troops overseas, while the receipts reflect sales of military hardware and related services.
- *Interest income (official)*, including interest payments on government securities.
- *Other government categories*, accounting mainly for foreign exchange outlays related to embassies and other government missions abroad.

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Confidential**Figure VII-3**

Billion dollars

US "Service" Account Flows, 1980

| | Exports | Imports | Balance |
|--------------------------|--------------|-------------|-------------|
| Private | | | |
| Transportation | 11.4 | 10.9 | 0.5 |
| Tourism | 12.7 | 14.0 | -1.3 |
| Royalties and fees | 6.9 | 0.8 | 6.1 |
| Other services | 3.5 | 2.7 | 0.8 |
| Direct investment income | 36.8 | 9.3 | 27.5 |
| Interest income | 36.5 | 21.3 | 15.2 |
| Transfers | 1.5 | 2.6 | -1.1 |
| Official | | | |
| Military | 8.2 | 10.7 | -2.5 |
| Interest income | 2.6 | 12.5 | -9.9 |
| Other | 1.9 | 1.3 | 0.6 |
| Total | 122.0 | 86.1 | 35.9 |

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**Selected US Service
Industries: Share of
Foreign Revenues**

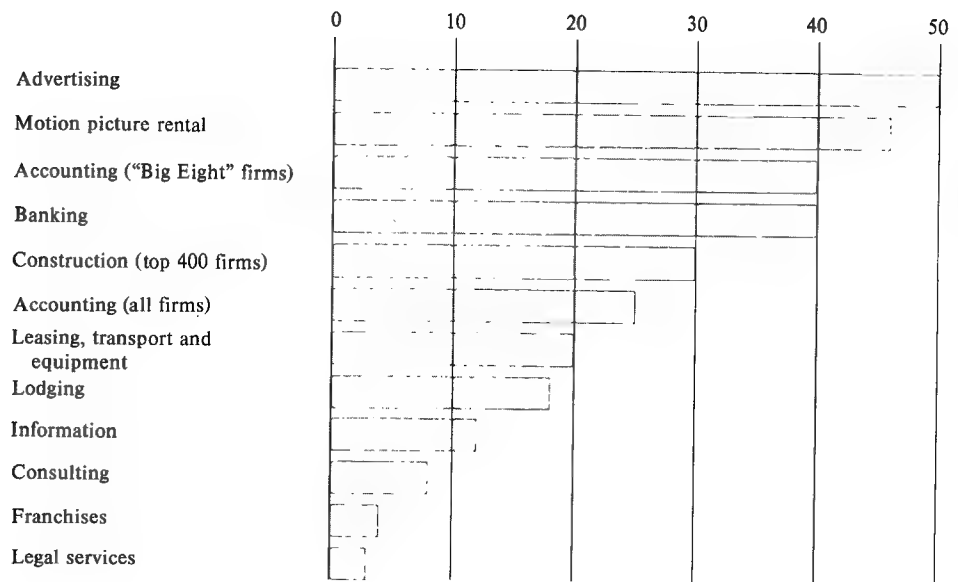
- The other private services category contains some of the most dynamic and important service sector industries. But, because of the accounting method used in balance-of-payments statistics, the category includes only a small portion of the actual sales of these industries. For example, another effort to try to account for the total foreign revenues of the industries in this category came up with more than \$30 billion in 1980. This compares with less than \$4 billion under the balance-of-payments definition.
- Much of what might be included in the other private service balance-of-payments category shows up in other service elements such as fees and royalties, direct investment income, and private transfers. Large revenues received by these industries also are likely to be included under merchandise trade. For example, the price of computer hardware often includes considerable outlays on software.
- Among many private service industries, foreign revenues now provide a major share of the total revenues. In accounting, advertising, banking, construction, and motion pictures, foreign revenues account for 30 percent or more.
- While the proportion of revenues derived from foreign sales remained relatively low in the case of consulting, franchises and information, they are climbing rapidly and are making an important contribution to earnings.

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Figure VII-4
Selected US Service Industries, Share of Foreign
Revenues, 1980

Percent



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**United States: Major
Changes in the
"Service" Account
Balance**

- All the improvement in the US service position has been attributable to the private sector. Between 1970 and 1980 these private flows improved \$42 billion while official transactions deteriorated \$8 billion.
- The bulk of the private gains stemmed from net earnings on direct investments and loans. These two categories do not merely reflect a return on US capital but they incorporate substantial earnings from the sale of US financial expertise, technology, and management know-how.
- Most of the decline in official transactions resulted from the interest paid on the increasing amount of US Government securities held by foreign governments, mainly as part of their foreign exchange assets. Thus, this US debt held abroad has been essentially "monetized."
- The military deficit shrank about \$1 billion during the 1970s because Department of Defense military sales abroad—mainly to Middle East clients—climbed faster than the foreign exchange costs of stationing US troops in Europe and East Asia.

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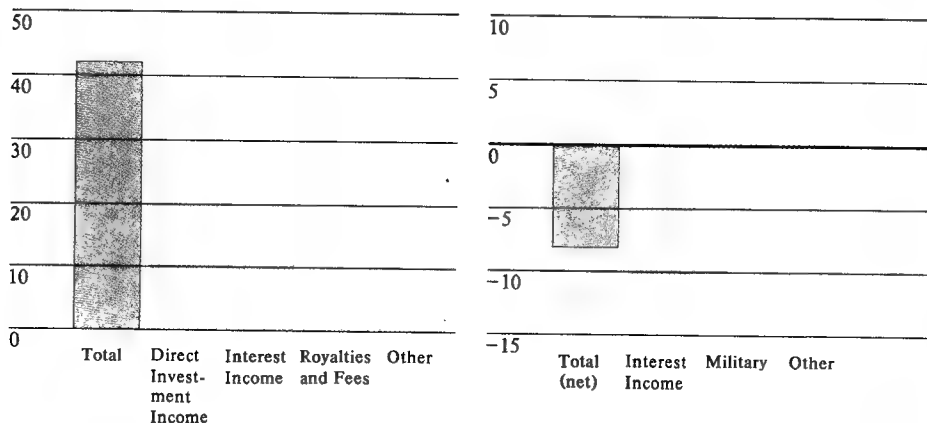
Figure VII-5
United States: Major Changes in the "Service"
Account Balance

Change in Billion \$, 1970-80

Note change in scales

Private

Official



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**US "Service" Account
Balance With Selected
Partners**

- The United States ran "service" surpluses in 1980 with every country for which separate records are kept.
- Although the United States has large private-sector surpluses with Canada, Japan, and the EC, in the latter two cases the overall surpluses are quite small. This occurs because official net outflows reached \$11 billion as a consequence of payments for military troops stationed there and of the interest paid on the US Government debt held by these two.
- The private net service surpluses the United States has with the EC are concentrated heavily in direct investment income and in royalties and fees. In the case of Japan, interest income earnings are the most important. This difference reflects the small amount of US equity investment in Japan and the large sums Japanese firms borrow in the US financial market.
- Overall more than 60 percent of the net interest income inflows came from LDCs in 1980 as a result of the major role US banks played in recycling petrodollars.

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Figure VII-6

US "Service" Account Balance With Selected Partners, 1980

| | Total | Private | | | | | Official |
|-----------------------|-------|---------|---------------------------|--------------------|-----------------------|-------|----------|
| | | Total | Direct Invest- ment | Interest Income | Royalties and Fees | Other | |
| Billion Dollars | | | | | | | |
| Canada | 8.3 | 8.6 | 3.9 | 3.3 | 0.7 | 0.7 | −0.3 |
| Japan | 1.7 | 4.2 | 0.1 | 2.7 | 0.9 | 0.5 | −2.5 |
| EC | 1.4 | 9.8 | 7.7 | 0.8 | 2.4 | −1.1 | −8.4 |
| Percent | | | | | | | |
| Developed | 36 | 52 | 59 | 38 | 75 | — | 94 |
| LDCs and other states | 74 | 48 | 41 | 62 | 25 | — | 6 |

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**Industrial Countries:
Major Changes in the
"Service" Balance**

- *Japan's* large deterioration on its service account during the 1970s was widespread and included a substantial rise in Japanese tourists abroad, purchases of a broad spectrum of private services, and increased interest payments (mainly to US banks) for loans taken out by the Japanese private sector.
- *West Germany's* large loss was due almost entirely to its soaring number of tourists.
- *France* did well in tourism and other private services, while the gains for *Italy* were heavily concentrated in tourism.
- The *United Kingdom's* gains were from other private services.
- Japan, West Germany, France, and Italy showed a significant jump in official interest income receipts because of their increased holdings of US Government securities.

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Confidential**Figure VII-7**

Billion dollars

Industrial Countries: Major Changes in the "Service" Balance, 1970-80

| | Total | Tourism | Other Private Services | Private Transfers | Official Interest Income |
|----------------|-------|---------|------------------------------|----------------------|--------------------------------|
| Japan | -10 | -5 | -4 | — | +4 |
| West Germany | -12 | -13 | — | -4 | +3 |
| France | +6 | 2 | 4 | -2 | +1 |
| United Kingdom | +6 | — | 6 | — | — |
| Italy | +4 | 6 | — | — | — |



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**VIII. Direct
Investment
Flows**

For the United States, foreign direct investment became a two-way flow in the 1970s, after two decades during which US firms were investing heavily abroad and the flow into the United States was minimal.

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**United States:
Cumulative Direct
Investment Abroad**

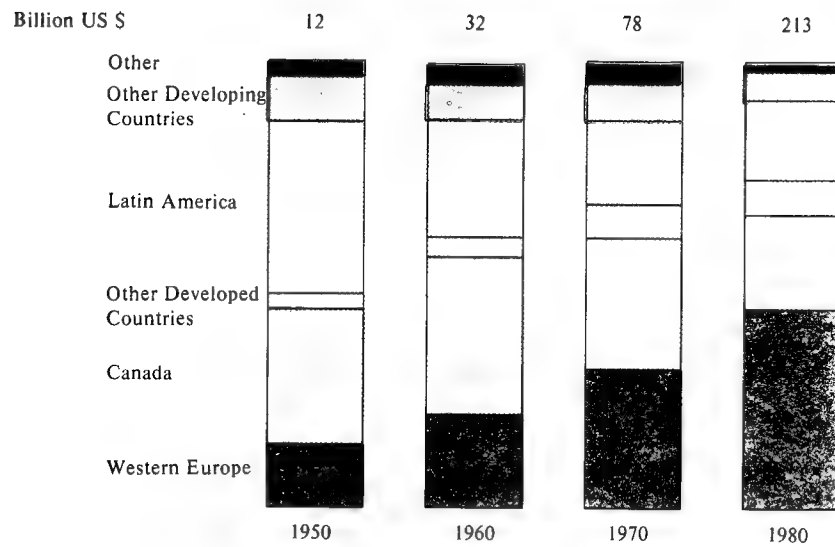
- The past decade saw a significant slowing of US investment abroad measured in real terms—excluding price movements and exchange rate changes. During the 1970s, such foreign investment climbed roughly 3 percent per year, a rate about half that of the 1950s and 1960s.
- From 1950 to 1980 the portion of US direct investment in Western Europe rose dramatically. By far the largest investments through 1980 were made in the United Kingdom (manufacturing, petroleum, and finance), West Germany (manufacturing and petroleum), and Switzerland (trade and finance). The most spectacular increases during the 1970s occurred in the Low Countries and Switzerland.
- The share of US foreign direct investment placed in Canada slipped from 35 percent in 1960 to 21 percent in 1980. In fact, during the 1970s the real level of US direct investments in Canada changed little, in part reflecting Ottawa's nationalistic investment policies.
- US investment in Japan climbed rapidly in the 1970s, although by 1980 the total US investment there remained small relative to the size of the economy. In that year Japan ranked seventh, along with Belgium, in hosting US investments.
- US direct investment in LDCs also became a less important component of the total in both the 1960s and the 1970s. This declining share would have been even sharper if it were not for enormous direct investments made in the 1970s in Bermuda and a few Caribbean islands associated with offshore US banking operations.
- Excluding this specialized investment, the only major expansion of US direct investment in LDCs took place in Brazil, Mexico, and a number of dynamic East Asian countries. In most other Latin American countries, there were small gains at best; similar conditions prevailed in Africa and South Asia. In the Middle East, there was a significant decline, reflecting the nationalization of the oil industry. For similar reasons, US investment in petroleum and other minerals throughout the Third World fell during the 1970s.

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Figure VIII-1
United States: Cumulative Direct Investment Abroad

Percent



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**Cumulative Foreign
Direct Investment in
the United States**

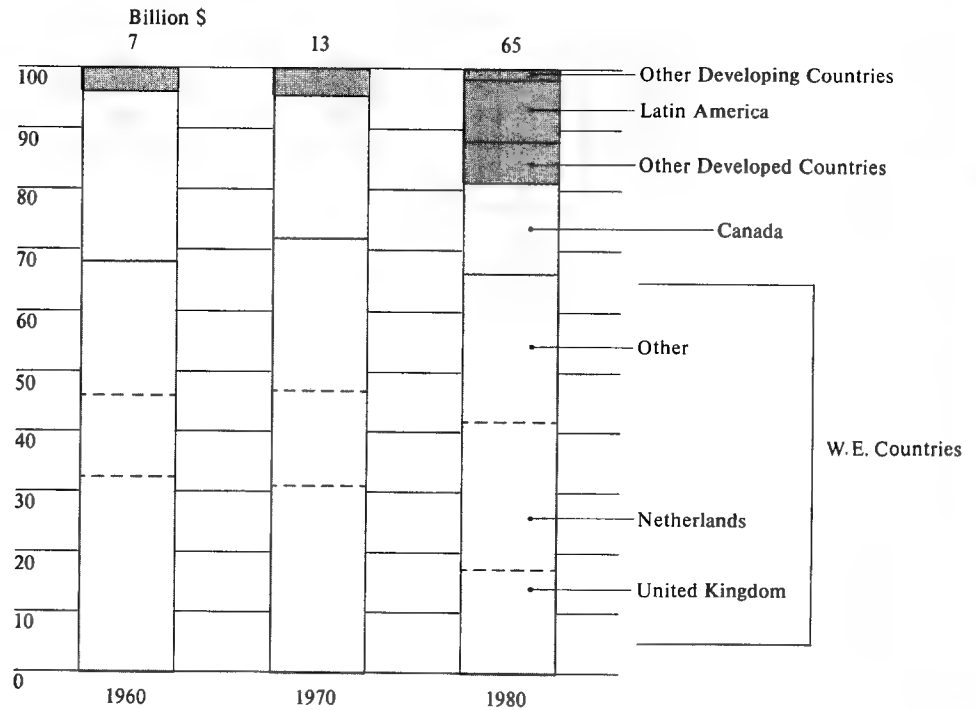
- Foreign direct investment in the United States accelerated sharply in the past decade. These investment inflows jumped about 10 percent a year (in real terms) in the 1970s, as compared with a 4-percent rise in the previous decade.
- By 1980, cumulative direct investment inflows into the United States equaled 31 percent of US direct investment abroad, up from only 17 percent in 1970.
- Since 1960 about two-thirds of the inflows have come from Western Europe. Nearly all the countries in the region substantially increased their investments in the United States in the 1970s, with the Netherlands moving into first place and replacing the United Kingdom.
- The flow from Canada also picked up in the 1970s but did not climb as fast as the European inflow. As a consequence, the Canadian share of the total dropped sharply.
- The Japanese boosted their investment from almost nothing in 1970 to \$4 billion in 1980 (6 percent of the total). Much of the Japanese investment was in trade and service establishments that facilitate the import of Japanese manufactures. In contrast, much of the new European investment was in petroleum and manufacturing.
- The rather large jump in Latin American investments mainly reflects inflows from the Netherland Antilles.
- By 1980, direct investments by OPEC members had reached only 1 percent of the total inflow, and about half of that was in real estate.

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Figure VIII-2
Cumulative Foreign Direct Investment in the United States

Percent



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**US Share of
Industrial-Country
Direct Investment
Flows**

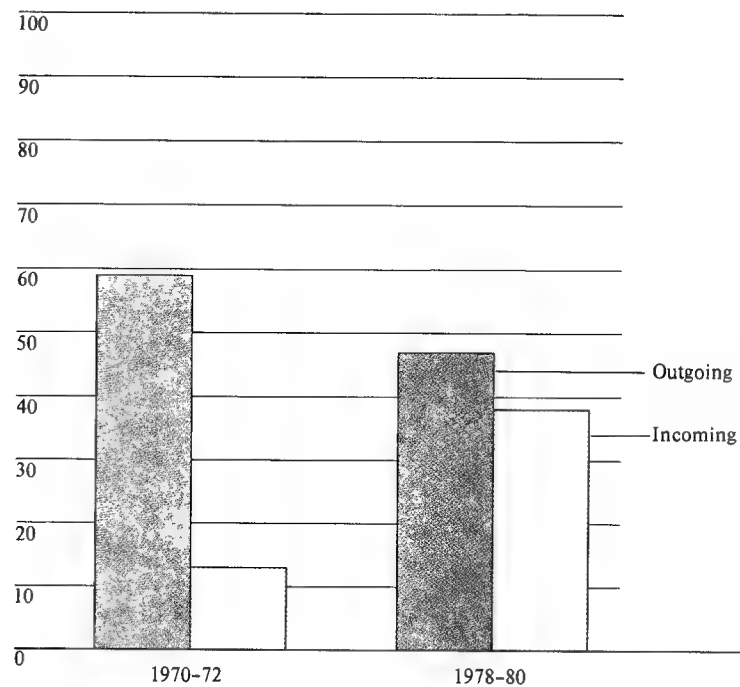
- The US dominance in total direct investments abroad by the 16 largest industrial countries has waned since the early 1970s. US multinational firms now face much stiffer competition from firms headquartered in West Germany, France, the United Kingdom, the Netherlands, and Japan.
- An even more dramatic shift has occurred in the US share of total industrial-country direct investment inflows. In fact, the United States has become by far the number-one choice of foreign investors.
- A disaggregation of industrial-country direct investment flows shows that services have been the fastest expanding sector, especially for the United States, West Germany, and the United Kingdom. Banks and trading operations have assumed the lead in this growth, followed by advertising, franchising, tourism, accounting, and consulting.

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Figure VIII-3
US Share of Industrial-Country Direct Investment Flows

Percent



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**Industrial Countries:
Changing Pattern of
Foreign Direct
Investment**

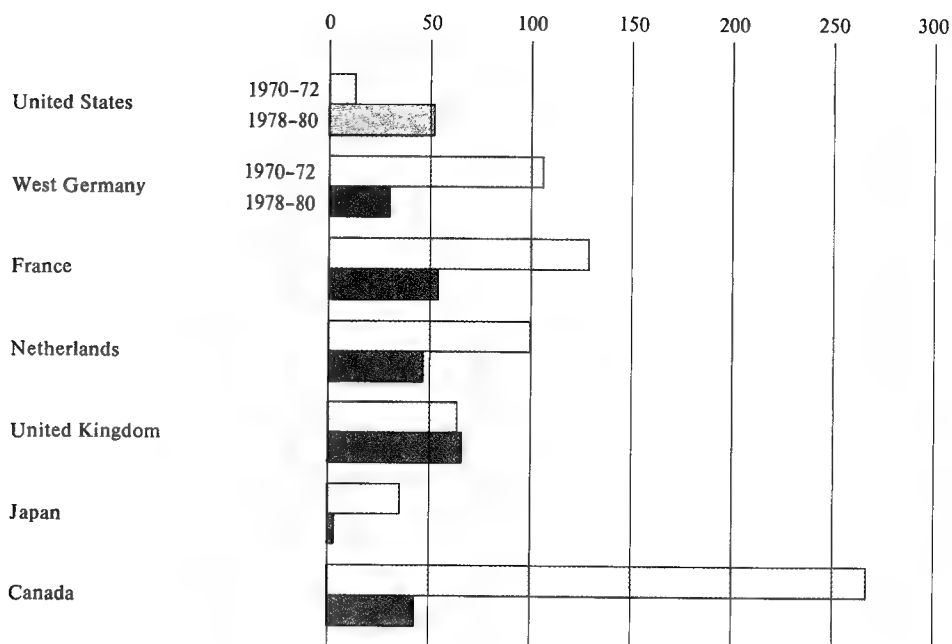
- For most industrial countries, there was a dramatic shift in the relation of their direct investment inflows to their outflows in the 1970s.
- We have already seen the growing importance of inflows relative to outflows in the United States. In fact, the inflows of direct investment in 1981 topped outflows for the first time since records were kept.
- Most continental European countries moved from being small net importers of direct investment to being significant net exporters.
- The Canadian shift in this direction was even more pronounced. Canada moved from a major net importer in the early 1970s to a major net exporter by the end of the decade. This shift was caused by Ottawa's effort to "Canadianize" foreign firms and its barriers on new foreign investment inflows, especially in the mineral industries. Meanwhile, because government policies produced poor investment prospects at home, many Canadian firms preferred to invest abroad.
- The Japanese became an overwhelming net exporter of direct investment. Direct investment inflows into Japan remained at a very low level throughout the 1970s, while that country's investment abroad rose rapidly. Despite the removal of many statutory barriers to foreign direct investment in Japan by Tokyo, the Japanese system still stifles new foreign investment.

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Figure VIII-4
Industrial Countries: Changing Pattern of Foreign
Direct Investment

Inflow as a Percent of Outflow



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**IX. Military and
Aid Burden**

The United States, more than 35 years after World War II, still carries by far the major economic burden of industrial-country military defense and assistance to LDCs.

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**Industrial Countries:
The Military and Aid
Burden**

- Although the US military burden (as measured by defense expenditures as a share of GNP) declined in the 1970s, it still was much greater than that carried by other major industrial countries.
- Among most US allies the military burden remained rather constant through the 1970s after declining during the 1960s.
- In regard to economic assistance to LDCs, other countries did take on an increasing share of the burden. By 1980, however, the US burden still approximated that of all the other major industrial powers when contributions made through voluntary private organizations are included.
- The major exception is West Germany, whose burden was considerably greater than that of the others in 1980.
- Given their economic prowess, the Japanese carried a strikingly small burden both in the military and the economic assistance cases.

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Confidential**Figure IX-1****Industrial Countries: The Military and Aid Burden**

| | 1960 | 1970 | 1980 |
|--|--------------|--------------------------|-------------|
| Military Expenditures as a Share of GNP (%) | | | |
| United States | 9.2 | 8.0 | 5.6 |
| Canada | 4.4 | 2.4 | 1.8 |
| West Germany | 4.0 | 3.3 | 3.3 |
| France | 6.2 | 4.0 | 4.1 |
| United Kingdom | 6.2 | 4.8 | 5.1 |
| Italy | 3.2 | 2.7 | 2.4 |
| Japan | 0.9 | 0.8 | 0.9 |
| Concessional Economic Aid as a Share of GNP (%) | | | |
| United States | 0.57 | 0.32 (0.38) ^a | 0.27 (0.32) |
| West Germany | 0.43 | 0.32 (0.36) | 0.43 (0.48) |
| France ^b | ^c | 0.44 (0.44) | 0.36 (0.37) |
| United Kingdom | 0.53 | 0.42 (0.42) | 0.34 (0.36) |
| Italy | 0.15 | 0.14 (0.14) | 0.17 (0.17) |
| Japan | 0.18 | 0.21 (0.21) | 0.32 (0.32) |

^a Figures in parentheses include assistance provided by nongovernment agencies.^b Excludes aid to departments and territories.^c Not available.

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MEMORANDUM FOR: The President
Secretary of State
Secretary of the Treasury
Secretary of Defense
Secretary of Commerce
United States Trade Representative
Assistant to the President for
National Security Affairs
Deputy Secretary of Defense
Under Secretary of Commerce for
International Trade
Under Secretary of Defense for Policy
Assistant Secretary of State for
Economic and Business Affairs

SUBJECT: The United States in the World Economy:
Elements of Strength

This memorandum prepared by the National Intelligence Council deliberately takes an upbeat view of the economic performance of the United States for the last decade and the prospects looking beyond the present recession toward the mid-80s. There are some ideas and charts which you might find valuable in preparing for the Versailles Summit.

William J. Casey

Attachment:
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